

Researching corruption in Asia: The accountant and “five blind men”

A thesis submitted in fulfilment of the requirements for the award of the degree of
Masters in Accounting
From Victoria University of Wellington, New Zealand



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2012

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ABSTRACT

The objective of this thesis is to identify and determine the way in which academic business research has evaluated or determined corruption, bribery and fraud in financial and accounting reporting in China and Indonesia. A subsidiary purpose was to identify how academic accounting researchers have accommodated particular ethnic and cultural aspects in their research. Very few accounting related results were found, especially those linking all variables in a conclusive and convincing manner. This appears to be caused by a lack of agreed definitions of key terms, a confusion over terminology, usage of discredited and myopic models, and an absence of any specific reported financial impacts on both the accounting profession and society globally. As a consequence, only parts of the “proverbial elephant as described by five blind men” (Duen, 2008, Silverstein, 2012) were identified by various authors, and mostly independently of each other. These thesis findings create an opportunity and a challenge for future researchers in this field to take a much more comprehensive approach, incorporating both quantitative and qualitative methods, with the aim of addressing the connection between ethnicity, accounting and corruption in much clearer perspective. In marrying the normally standalone quantitative with qualitative methods it is expected that researchers will be able to achieve a hitherto elusively holistic understanding of the complex layers that propel and impel cultural norms and ethnicity. In order to do this, it is suggested that future researchers consider the application of an embedded research methodology, supported by much broader and deeper analysis and understanding of the various layered ecological influences, as advocated by academics and thought leaders of society alike.

ACKNOWLEDGEMENTS

I have been fortunate to meet many sound ethically directed individuals in each country where I have worked and lived. They were and are kindred spirits who have chosen paths less travelled and have benefitted from or suffered the consequences. If one takes a philosophical approach, suffering is always beneficial in any case, so it may not be necessary to make the distinction I have made. It is for those people that have pondered the implications of corruption and other unethical acts, who have agonized and taken tough decisions, led by the right choices, that I have done this research and have written this thesis, to allow for some sense making of the whole debate over corruption. I also dedicate this thesis to many of my ancestors globally, including those from Fujian and Java, that have made the correct decisions under trying circumstances and have paid the price for those decisions. I feel your blood in my veins and have walked in your footsteps in exotic corners of the globe.

I also remember my fellow auditors, investigators and their families, those that were found dead under mysterious circumstances while investigating graft and corruption, blown up by road side devices on the way home to their loved ones, found tied up in garbage bags, who received bullets in their mail or stared barrels in the face multiple times during their careers, who were publicly harassed, demeaned and denigrated while putting their careers and livelihoods on the line and often left grieving families behind. This is for those that paid and will in future pay the heavy and sometimes final price for reporting the truth professionally and with integrity. With this thesis I remember you.

A further dedication goes to Oom Cor (1905 – 1973), the only person I have known who, by virtue of his birth in a much different age than we now live in, shares with me the same western and Chinese astrology, including the element under he was born. Oom Cor, a professional auditor in the 1940's and the first professional auditor I ever met at the tender age of four years, introduced and inducted me to investigate and explore and took me to the first public library I had ever been to, commencing a lifelong love for books and knowledge. He also introduced me to soft boiled eggs and fresh orange juice for breakfast. May you rest in peace.

My final thanks go to my parents-in-law in Malaysia who adopted me like their own, inducted me in their culture and their faith, and who accepted and supported my intercultural marriage. It is thanks to my wife and my children, who have always understood and supported, that I have maintained the perseverance and the sanity to live through life so far, through good and bad.

The Mind of Absolute Trust (信心銘)

The Great Way isn't difficult for those who are unattached to their preferences,
Let go of longing and aversion, and everything will be perfectly clear.
When you cling to a hairbreadth of distinction, heaven and earth are set apart.
If you want to realize the truth, don't be for or against.
The struggle between good and evil is the primal disease of the mind.
Not grasping the deeper meaning, you just trouble your mind's serenity.
As a vast infinite space, it is perfect and lacks nothing.
But because you select and reject, you can't perceive its true nature.
Don't get entangled in the world; don't lose yourself in emptiness.
Be at peace in the oneness of things, and all errors will disappear by themselves.
Seng Ts'an (b. 520 CE ?- d. 609 CE ?)

"Vanitas vanitatum dixit Ecclesiastes, vanitas vanitatum et omnia vanitas"
Verba Ecclesiastes filii David regis Hierusalem.

ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
ANT	Actor Network Theory
BC	Before Christ
CE	Common Era
CGMA	Certified Global Management Accountant
CIA	Central Intelligence Agency
CFO	Chief Financial Officer
CPC	China Communist Party
CQ	Cultural Intelligence
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
IAASB	International Auditing and Assurances Standards Board
INTOSAI	International Organization of Supreme Audit Institutions
FCPA	Foreign Corrupt Practices Act
GP	Gross Profit
HSBC	Hong Kong and Shanghai Banking Corporation Limited
KPI	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler
MNC	Multi National Corporation
NP	Net Profit
NPV	Net Present Value
NYSE	New York Stock Exchange
OED	Oxford English Dictionary On Line
PE	Price Earnings ratio
PLA	People's Liberation Army (China)
ROI	Return on Investment
SFP	Small Facilitation Payment
USA	United States of America

CHAPTER 1: INTRODUCTION

Fraud and corruption, including bribery, are increasingly researched and reported on globally, at institutional, professional and at academic levels. A report dated May 2012 from the Association of International Certified Professional Accountants, a Joint Venture between AICPA and CIMA which promotes and awards the Chartered Global Management Accountant designation (CGMA, 2012, p. 16), notes the pressure on accountants to act unethically has increased dramatically, especially in regards to “meeting reporting deadlines” and “compiling management accounts”. The same report also notes that accountants are increasingly likely to accept paying bribes to obtain contracts for their organizations.

Increased global awareness

Governments progressively pay more attention to corruption as a national issue, including their position in world indices, including the Corruption Perception Index (CPI) published annually by Transparency International. Davis & Ruhe (2003, p. 276) noted that this was not always the case. Until the date of their study academic research was limited and even tended to accentuate the positive aspects of corruption, including the possibility it might serve as a good training ground for aspiring entrepreneurs (Elliott, 1994), accelerate economic development (Brunetti, 1995), or re-establish market efficiencies (Mankiw, 2000 as cited in Davis & Ruhe, p. 276). A dramatic change in mind-set has occurred since that time. Top international leaders and institutions have labelled corruption a “plague” (Wen Jiao Bao 2006, cited by Plafker, 2007, p. 239, as cited in Brody & Luo, 2009, p.323) a ‘cancer’ (INTOSAI, 2004; Wolfensohn, 1996, as cited in Everett, Neu & Rahaman, 2007, p. 513), a “disease” (Correll, 2003) and a “scourge” (Transparency International, 2005), *Ibid*, p.513). These are strong words which leave no doubt that global leaders are greatly concerned. Unfortunately, the public rhetoric, in parallel with the introduction of more regulations, as well as the increased number of cases brought under laws such as the Foreign Corrupt Practices Act (FCPA, 1977), appears to not have reduced the incidence of corruption and fraud.

Rather perversely, it seems that exactly the opposite has occurred. At the start of 2008, some 80 FCPA investigations were in progress, and 6,000 individuals were convicted of corruption between 2001 and 2005 (Bierstaker, 2009, p. 243). In some cases it appears as if fraud has become a business in its own right, as was highlighted in an article in a Chinese business publication, *Today's Fortune* (2012), which referred to the existence of “frauducation”, a formal “fraud school” in China, that has been involved in a substantial portion of the New York Stock Exchange (“NYSE”) listings of Chinese companies that have now been delisted or gone bankrupt. According to the article, official statistics in the United States estimated related losses caused by fraud at such companies at around US\$ 35 billion during the past 5 years (*Today's Fortune*, 2012, as cited in Muddywaters Research, 2012, p. 1). Both the quantum of fraud and corruption and apparent paradoxes such as the aforementioned increase raise questions about the involvement and role of accountants. In an analogy to the tale of Five Blind Men (Duen, 2008) that will be referred to in subsequent chapters, it is not clear whether corruption and fraud are appropriately recognized, reported on and addressed by accountants. One of the morals of the tale is that truth is relative, opaque and inexpressible. On the basis of this thesis it is clear all adjectives may apply. In some ways, the researcher could be left like a blindfolded person trying to hit a watermelon, something that happens annually during summertime in Japan (*Japan Five*, 2012).

Figure 1: スイカ割り (“Watermelon smashing”)



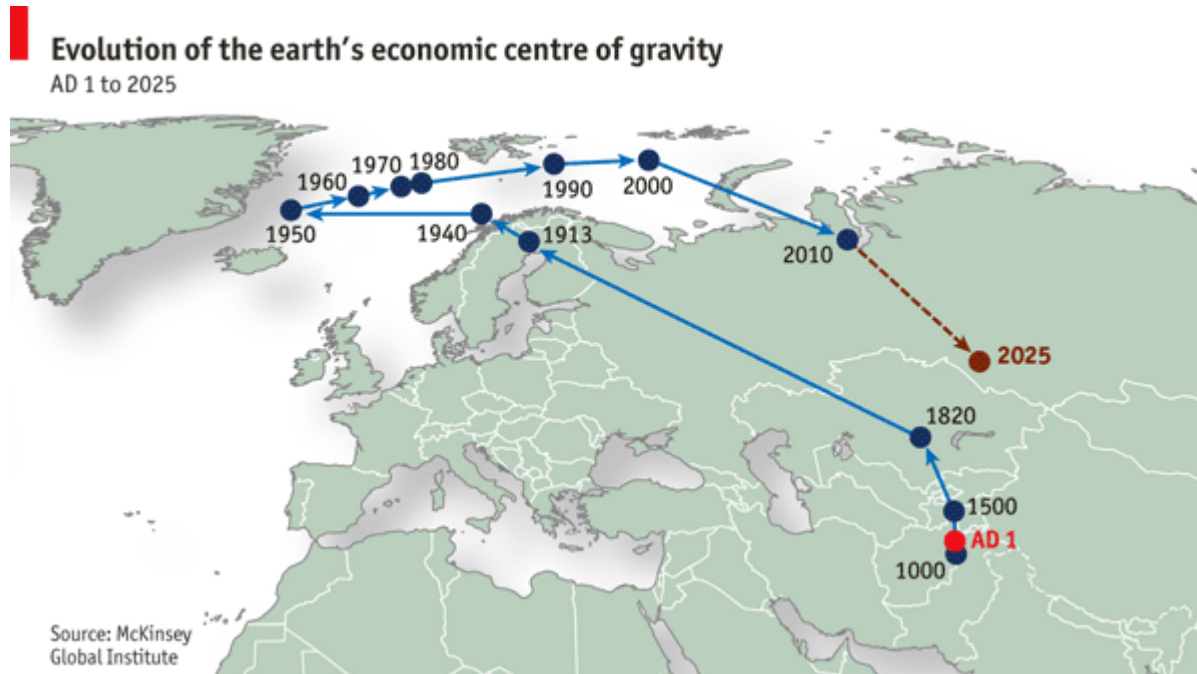
Rising global responses

In response to the apparent lack of visibility, caused by blindfolds or otherwise, anti-corruption stakeholders are introducing various measures to try and reduce corruption and improve transparency. This is evidenced by the on-going regulatory and institutional developments in this sphere, including legislative updates in the countries under review in this thesis. One example is a recent announcement by the World Bank. Due to the estimated leakage of US\$ 20 – 40 m of the total US\$ 72 m of global lending the bank does, its internal deliberations on sanctioning corrupt counterparties will be published annually to try and shame them into better behaviour (Businessweek, 2012). In addition, new anti-corruption legislation is increasingly global and invasive in nature, including the UK Anti Bribery Act (2010). Under that act all acts of corruption, regardless of the financial quantum, are considered bribery. This is quite a different approach to the FCPA which allows for Small Facilitation Payments (SFP), as per FCPA, 1977, 15 U.S.C. §§ 78dd-1(b), 78dd-2(b), 78dd-3(b), if these are effected “to expedite or to secure the performance of a routine governmental action”. From an academic perspective there is now a growing, albeit still limited, list of scholarly articles and studies on corruption and ethics, attempting to establish linkages, possible causes and the effects of corruption, fraud and bribery on accounting. Such scholarly research has identified a range of explanations and definitions of what constitutes corruption and fraud, as well as a growing list of negative impacts that result, even in case of the innocuous SFP.

The objective of this thesis is to identify and determine the way in which academic business research evaluates or determines corruption, bribery and fraud in financial and accounting reporting in China and Indonesia therefore appears very timely and relevant. The reason for selecting these two large populous countries is that they are both in Asia, have different as well as similar philosophical underpinnings and share a number of similarities in terms of their variety of languages and ethnicities. Both countries are also considered prime targets for foreign investment and are expected to continue to grow in importance, ensuring that the research conducted here and the conclusions derived therefrom will be useful to both the academic and the wider business community. A visual explanation of this growing importance is provided by

Figure 1 below from McKinsey & Co, which attempted to calculate the past movement of economic activity and predict the shift of economic power and gravity into the future (The Economist, 2012).

Figure 2: Shift of economic power balance to Asia



A sub-objective is therefore to review also how the issues have been academically researched and reported on globally, as a contrasting perspective to the two specific countries selected.

Structure of thesis

The remainder of this thesis is organized in line with the research question and sub objective. After chapter two describing the methodology, a review of definitional issues is presented in Chapter three. Chapter four reviews the invocation of culture and ethnicity in academic business-related studies. The next Chapters five and six offer a more detailed review of corruption and accounting and fraud and financial reporting. Chapter seven focuses on guanxi. Under each heading, global observations are followed or interspersed with sections on China and Indonesia within these distinct topical headings. The final chapter of this thesis outlines conclusions reached and possible areas for further future academic research.

Appendices, containing a Personal Motivation Statement, relevant background information on topics addressed in the thesis and an original list of search results with a qualitative description to confirm their inclusion in the literature listing for this thesis are also included, to provide background and insight to the reader and in order to offer this thesis in a personal context.

CHAPTER 2: METHODOLOGY

“But there are cultural factors which have been lightly touched over, which deserved more weightage. This would have made it a more complex study and of less universal application, but it would have made it more accurate.” Lee Kuan Yew, as quoted by Zakaria, 1994

The methodology selected for this thesis is a balance between scientific analysis and critical enquiry using the method of descriptive meta analysis, as defined by Guthrie and Murthy (2009, p. 126). The view above as expressed by Lee Kuan Yew, a former prime minister of Singapore acknowledged globally for his original thinking and effective leadership, confirms the need for such a balance, as it sums up well the challenges faced by a researcher who reduces complex situations to simplified models for universal extrapolation. The comment was made in relation to a World Bank study on the reasons for the obvious successes that Singapore has had economically and in other spheres as compared to other countries in the region, and Lee Kuan Yew is essentially highlighting the constant tension inherent in the choice between quantitative model driven research methods and the qualitative, less defined but ultimately more accurate study approaches. The meta analysis method was therefore selected on the basis that it has been applied by other academic researchers in this field with good effect, as a lead in to discussions on the topic of corruption (Everett, Neu & Rahaman, 2007) and Chen and Chan (2009) who report on accounting issues in China. The critical enquiry approach raised pertinent questions on the matters that arose from the meta analysis.

All knowledge is tentative

Based on Popper’s view that “Every scientific statement must remain tentative forever” (Popper, 1959, p. 280), all conclusions are considered temporary at best. This includes academic, audit and conclusions derived from investigations, since they are driven by realities and evidence collected at a specific point in time. Conclusions in any such

domains may be derived, to then be adjusted or sometimes completely overturned as new evidence comes to light. As Chariri (2009, p. 118) notes, “financial reporting practice should be studied within the framework of an interpretative, rather than a positivist, paradigm”. Hopper et al (1995, p. 528), cited in the same article, stresses a comment by Hines (1988), in that during the communication of a reality via financial reports, accounting professionals are simultaneously involved in the construction of that same reality.

A practical approach

The initial approach to the literature search was to divide the subject matter into manageable sub topics including corruption, bribery and fraud, their linkages to ethnicity and culture, and their connectivity to financial accounting and reporting in the countries selected. The next step was to establish a relevant and unbiased literature listing based on the search topics selected and combinations thereof. The objective of the search was to identify and select 20 relevant articles for each country under review. It is academic journals rather than books, which largely inform this thesis therefore. In the process of searching the full population from which to draw the sample for the Literature Listing, key trends were isolated and documented at a high level in this section. Initial results from this Literature Search are noted in the following sections of this chapter.

As progress was made in documenting the detailed analyses from the literature in this section, it became apparent that the scope of the research had to be curtailed. A key requirement was to allow sufficient focus on individual countries and the relationship with the other sub topics in the research question. Accordingly, the research scope was reduced to focus on China and Indonesia, since these present two dominant nations with plural ethnicities, representing a wide variety of historical and philosophical backgrounds.

Based on the apparently relative recentness of academic research in this field, and the concomitant variability in defining the terms, it was deemed necessary to establish how authors identified culture, corruption, fraud and bribery. As part of the linkage to ethnic

or cultural norms, each article was also assessed to determine distinctions existing in “cultural” approaches regarding accounting techniques and attitudes towards corruption, bribery and fraud. Since many academics used a theory or model driven approach to research, theoretical frameworks, perspectives, methodologies and models were also identified, any reasons, advantages and disadvantages of using the particular approaches, and as a next question, whether and how they validated the models used. The resulting analysis of definitions and models is presented in Chapter three.

The initial high level trends documented in this chapter assisted in formulating further sub topics for the development of an effective framework within which to conduct the detailed analysis as part of the meta analysis. A more detailed evaluation schema was thus established, based firstly on whether the articles addressed or acknowledged the impact of ethnicity and culture and the linkages to and between the various sub components of the research question. In the remainder of this discussion, answers to a number of sub questions forming part of the evaluation schema are accordingly presented. These include questions such as why authors were determined to study ethnicity or culture in relation to accounting, corruption and governance, and how they connected the resulting norms to corruption, fraud and financial reporting.

A global search objective

The thesis research commenced with the objective to focus on four distinct nations in Asia, including, in addition to China and Indonesia, India and Malaysia. Key terms or variables were isolated within the research question. These were searched for in Proquest and Google Scholar, using a direct method and by way of citations tracing from articles selected. The search approach taken was not limited to accounting journal articles. The approach was to search from the perspective of keywords rather than on a limiting basis of journals in any specific discipline, including accounting. Results were documented in workpapers as the research progressed, to enable any detailed evaluation to be undertaken at a future point in time. An example of such interim results documentation is contained in Appendix III, Original Search Results. In contrast to the approach noted here, some other literature review driven research has limited searches

to accounting journals (Everett, Neu & Rahaman, 2007), a specific journal such as the Journal of Business Ethics within a defined period (Chen & Chan, 2009), or based any search activities on a specific event such as Gray's publication of his cultural dimensions in relation to accounting in 1988 (Chanchani & Willett, 1999).

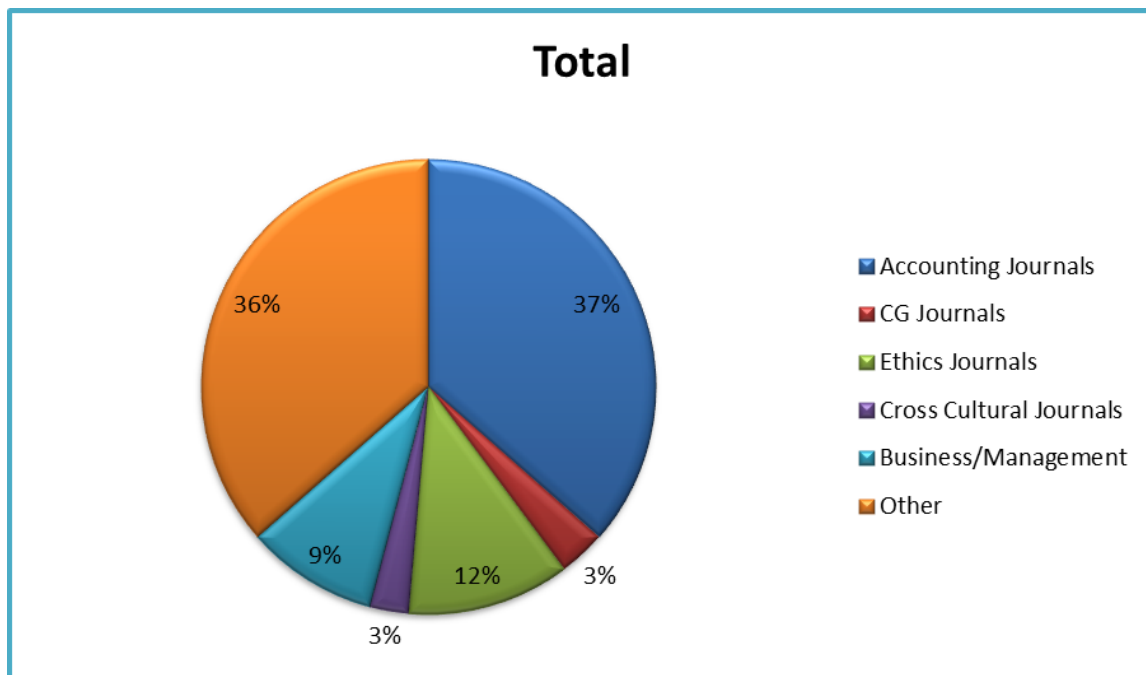
Limited search results

A total of 181 articles globally were identified from both accounting and other disciplinary magazines. This number contains 67 global articles which are not specifically focused on the four countries being reviewed and which resulted as a side effect of the literature search. An initial 26 articles were found for India, 41 articles for China, 26 articles for Indonesia and 23 articles for Malaysia, making up the total figure as a result of the extensive keyword searches conducted. The list of Chinese and Indonesian focused articles is provided in Appendix III, with comments as to their suitability for inclusion into the final core thesis literature list. Considering the low quantum of hits this gives an initial indication of the paucity of academic research on the specific topics of focus for this thesis. This observation would be reconfirmed in the detailed analysis conducted as part of this thesis.

Limited accounting related results

The initial distribution of the 181 articles found in journals across disciplines, including accounting journals, was as per the following Figure three. It shows that around 37% of the articles identified initially were published in accounting journals. Equally, the search results highlighted that there were insufficient articles in the accounting journals to meet the targeted 20 articles per country.

Figure 3: Relevant academic articles identified – distribution by discipline.



Limited linkages between thesis variables

Few articles were found that directly linked corruption, bribery, fraud, culture and financial accounting. The full research question did therefore not appear well researched or reported on within these parameters in any specific article, especially in a country specific context. For example, a Google Scholar search on “India + fraud + culture + accounting” resulted in three apparently useful hits out of 19,200 results on the date of search. It was noticeable that the raw search results for China and India were substantially larger, and that the topics under research are much less researched in the context of Indonesia and Malaysia.

The combination of two variables, corruption and financial reporting, also does not appear to be researched or reported on very widely. There were no articles in this initial selection that researched or reported on any links between corruption and financial reporting. It appears fraud and financial reporting are more frequently connected. For example, the keyword search “Malaysia + fraud + accounting” resulted in a number of relevant articles on Malaysia and fraud. As noted by the CGMA report (2012), chief financial officers (“CFO”) globally are increasingly likely to condone or engage in bribery. Consequently, it appears obvious that the impact of corruption and

bribery on financial reporting should be of interest to researchers. A number of articles were found that discussed and researched the impact of cultural norms and practices on auditor judgments. Conversely, no articles dealing directly with the connection between auditor's judgment and corruption were identified. It did appear that the subject of corruption is more extensively researched and written on in relation to China. No cross-national qualitative studies were found relating to an Multinational Corporation ("MNC") with establishment or operations in one of the countries being reviewed. Only one article in Indonesia purported to research the behaviour of national organizations in their own country and the intersection of cultural norms and ethnic groups within the same nation.

An accounting discipline driven selection

Once the initial search and selection process was completed, identifying 181 scholarly articles, a total of 20 articles for each country were identified, as well as around 30 global articles of relevance, in line with the approved thesis plan. The manner in which final articles were selected was to prioritize accounting journal articles, followed by corporate governance, then ethics publications and finally any remaining disciplines. The global list of 30 relevant articles was finalized based on the need to review what has been done globally in this domain, due the relatively poor results by country in terms of accounting specific articles. This resulted in a literature listing of research conducted in the thesis domains, but in other geographical regions globally. It provided guidance towards an understanding of how cultural norms and values had been linked to corruption, bribery and fraud in other parts of the world. The selection provides rich material for initial global discussion sections as an introduction to the detailed country reviews for China and Indonesia. As research progressed other articles were sourced that were specifically focused on an aspect of the research question, in order to provide sound academic references as part of the literature review. In addition, current media references or professional association reports and survey results were also included as and where they were of relevance, to emphasize a point of academic interest or to corroborate a certain line of theory. The final Bibliography reflects the results of this approach.

Ethnic perspectives of researchers

Based on an initial scan of the names of academic authors, around half of the articles researching in Indonesia were found to be written by locals, or locals studying abroad. On the other hand, a predominant portion of relevant articles written on China were authored by ethnic Chinese, and a substantial portion of those are based in Hong Kong. Based on the 181 article titles and abstracts that were analyzed initially to determine their suitability for inclusion in the final thesis literature listing, 78% of the articles found appear not to make use of any established model for cultural measurement. This is an observation that will be expanded upon in later sections of the thesis. In the remaining 22 % of articles, any quantitative models applied to measure cultural attributes appear to be predominantly those proposed by Gray (1988) and Hofstede (1980). A minority of all articles originally identified therefore contain references to any models for cultural measurement and evaluation. Apart from Hofstede and Gray, other cultural measurement models identified included those proposed by Schwartz (1990) and Trompenaars (1993). Some additional discussion of the use of such models is provided in Appendix II.

The next chapter will set the tone in terms of the basis from which the different key variables in the research question could be considered in order to effectively answer the research question, by addressing the issues of definition as an introduction to the detailed analysis of the literature.

CHAPTER 3 : A REVIEW OF DEFINITIONAL ISSUES

Definitions of corruption

Before commencing a detailed analysis of articles selected it is deemed appropriate to identify common definitions used academically for any of the key terms in the thesis question. Accordingly, the following four sections cover issues and observations around definitions of the key variables researched.

Corruption

Everett, Neu and Rahaman (2006), predating much of the subsequent research and publications on corruption, devoted a significant portion of their research to find a conclusive definition of corruption. They noted that corruption is a “vague term”, and that it can be subdivided into a number of different classifications using Rose-Ackermann (1999 b), as cited in Everett, Neu and Rahaman, 2006, p. 3, as a benchmark, including “petty”, “bureaucratic”, “grand” and “political” type of corruption. According to Raditlhokwa, 1999, *Ibid*, p. 3, corruption can also be classified as “productive”, “malignant”, “systematic”, and “individual”. Further authors defined corruption as “private to private”, and “private to public” (Argandona, 2003, *Ibid*, p.3, alternatively “official” or “fiscal” (Fjeldstad & Tungodden, 2003; Mensah, 1999), *Ibid*. Essentially, the above are attempts at sub-classification of the term corruption. In addition, the same authors noted that there are many acts that might be included as leading to corruption. These acts are noted to cover a range of activities, such as “treason”, “conflicts of interest” (Caiden *et al.*, 2001a), “bribery”, “embezzlement” (Klitgaard, 1998) and in fact one author quoted (Caiden *et al.*, 2001 b) has listed no less than 60 different acts that may be considered corruption.

Ambiguity in usage

In focusing on sub classifications and specific acts of corruption, while not tackling the term directly, global usage of the term corruption has become “ambiguous” as Everett, Neu and Rahaman (2007) note in their subsequent article on the topic (p. 514). They identify two major global institutions, the World Bank and the International Monetary

Fund (IMF), which define corruption as the abuse or misuse of public office for private benefit (*Ibid*). Other anti-corruption stakeholders have broadened the term to denote “abuse of entrusted power for private gain” (Transparency International, 2004, as cited in Everett, Neu & Rahaman, 2007, p. 514). Equally, some other authors have not attempted to explicitly define the term, and have instead referred to existing legislation such as the Foreign Corrupt Practices Act (1977), cited in Bierstaker (2009, p. 243). By noting that this Act prohibits the bribery of foreign government officials, (Maris & Singer, 2006, as cited in Bierstaker, 2009) the author appears to be implying that corruption only pertains to foreign government officials, in line with the Worldbank and IMF definitions referred to earlier.

This is echoed by Everett, Neu and Rahaman (2006). They noted that because of the apparent ambiguity and challenges in defining the term, it appears to be more straightforward for authors to refer instead to the actors involved in corruption, including “public figures”, “civic employees”, “bureaucrats” and “politicians”. The predominant public status of these categories of perpetrators appears to confirm the predominant view that corruption is related to acts involving public rather than private sector actors. It also skews the perspective on corruption by ignoring the reality that it involves at least two parties, whereby one party offers and one party reciprocates on an agreed basis, and according to whichever specific action that has been decided. As noted, sixty different acts listed by Caiden *et al*, (2001 b) offer ample scope. But in remaining silent regards the other party to the act, who may be from any sphere of society, the focus appears to remain on the public sphere and public nature of corruption.

Corruption limited to public sector

Other authors who took a public sector approach are Davis and Ruhe (2003) who focus on “international corruption that entails the providing of a service by a politician or public servant in exchange for a bribe”. This definition of corruption ignores that corruption may be local as compared to international, and may not involve the provision of services. Their definition may therefore be construed to be too limiting. They also refer to the FCPA, in noting that it forbids the bribing of foreign officials by

any US companies. In specifying that only US companies are forbidden to engage in corruption, it ignores the other categories of potential bribing agents, as noted earlier, although it appears by virtue of the evolution of FCPA interpretations over time and the numerous cases noted by Bierstaker (2009) and others, that the definition of bribers is expanding. Equally, Treisman (2000) notes that corruption entails “misuse of public office for private gain”

A different perspective that removes the constraints created by the limited nature of definitions so far analyzed is taken by Malagueno *et al* (2010). In their research they have applied a definition of corruption as being “[. . .] an exchange between two parties [. . .] which (i) has an influence on the allocation of resources either immediately or in the future; and (ii) involves the use or abuse of public or collective responsibility for private ends (Macrae, 1982, p. 678, as cited in Malagueno *et al*, 2010, p. 373). The reason Malagueno *et al* (2010) have taken this position, is, as they explain, acknowledging that corruption occurs in both public and private sectors. In clarifying their position they note that public sector actors act for reasons of private gain, and the private sector conversely for economic gain. The authors then limit corruption related acts to those that are illegal. This ignores the impact of, or on, morals and ethics from corrupt practices, since human laws are only an approximation of what is considered correct or incorrect according to philosophical frameworks that are the basis of societies and societal values. A further limitation is possibly that not all private sector actors will act for economic gain rather than the public official’s private gain.

It is therefore clear, from a review of global authors so far, that attempting to define the term corruption is contentious. In addition, the definition of actors and acts involved in corruption are opaque and ill defined. This is echoed in the wide range of differing definitions used in attacks on corruption by Serious Fraud Offices internationally, and by virtue of the legislation and legal interpretations of those Acts as noted elsewhere in this thesis (Paterson, 2012).

Corruption in China

Of articles studied focusing on China, none of the authors reviewed attempted to or defined corruption. Most of the articles discussed corruption either directly or

tangentially. Either the authors assumed that the term is so well defined that it needs no further elucidation, or alternatively, the term was found to be too ambiguous to attempt to address defining it. Alternatively, there may be cultural dimensions at play since corruption can be interpreted differently in different cultural settings, as noted repeatedly in this thesis. This suggestion is emphasized by Steidlmeyer (1999) when he notes that gift giving is an integral part of building guanxi in China. At the same time, he notes that foreigners often have trouble distinguishing between a gift and corruption. It is “difficult to discern when it is proper to give a gift, what its nature should be, and to whom it should be given” (p. 121). Further, the line between gift giving and corruption can easily be blurred, especially by foreigners. It should be emphasized that a lack of formal and agreed definition of corruption makes it much harder to make or research that distinction in other cultural jurisdictions. As Steidlmeyer also notes, discerning what is a gift and what is a bribe is ultimately by driven by “Social Knowledge” (p. 121), which is not too far removed from the notion of Cultural Intelligence or CQ, as it is defined by Blasko, Feldt and Jakobsen (2012, p.229). It is possible that the nefarious and generally unquantifiable nature of what constitutes social knowledge and even CQ makes it so much more challenging to ultimately agree on a commonly acceptable definition of the term Corruption.

Corruption in Indonesia

Research in Indonesia equally does not present any definitions of corruption. Corruption is discussed in relation to the FCPA and its impact on behaviour of US corporations in Indonesia (Bosworth-Davies, 2008), to the Indonesian judiciary and in relation to auditing, the need to eliminate it (Rosser, 1999), and anti-corruption reforms implemented in Indonesia (Schutte, 2012). Definitions of the term are essentially absent. Many articles in Indonesia completely ignore the term corruption proper, even where it might be considered quite appropriate to raise it. Jacobsen (2006), in his study of ethnic Chinese in Indonesia, with specific focus on intra and inter-ethnic business transactions, does not mention the words “corruption” or “bribery”. The ramifications of this notable absence will be referred to subsequently in this thesis in the following chapters.

Relevance of observations

The definitional issues highlighted, both globally as well as pertaining to China and to Indonesia, are of relevance to the research question because it is clear that virtually all authors have ignored this requirement. It is hard to imagine how to research, write about, combat, legislate for, or influence something as apparently ephemeral and demonstrably ill-defined as corruption. This is especially poignant since in many cases acts or actors are not labelled clearly as corrupt in the articles, in reference to the Actor Network Theory or ANT (Latour, 2005). Actors and their acts, including the act of bribery which will be discussed later in this chapter, may be labelled in very limited ways prescribed by definitions that are constricting in scope, or alternative completely non-existent. As Steidlmeyer (2009) notes, in many cases terms are simply defined as a type of action without deeper assessment and definite language based boundaries and parameters. Referring to the Kantian method of analysing “end, means, values and consequences” (p. 126), Steidlmeyer then notes that acts can be erroneously judged to be wrong by means of the Kantian approach of assessing whether to make the action universal or not based on utilitarian principles. These utilitarian principles underpin the belief system, drive cultural values, and in the end the whole exercise becomes one based in “tautology” whereby the action is, of course, always wrong once any label has been attached.

One risk of the definitional limitations is that it is unclear who is involved and how, which, depending on cultural attitudes towards the concept, drives an unacceptable practice even further underground, or exalts an acceptable practice as a social norm or practice, without fully comprehending its full ramifications. A related risk is that acts that are not corrupt may be misinterpreted and labelled incorrectly. In order to study the individual topics under consideration and inherent in the research question, it is necessary to identify aspects of each in the articles under review on the basis of an accepted definition. This will consequently assist in determining the way these have been treated and the interrelationships between the variables in the question, including the impact of culture, as well as the actions between actors and the flow between tangible and intangible concepts to create meaning out of corruption.

Jurisdictional specificity

The challenges in and importance of establishing a conclusive and accepted definition of corruption have been further emphasized by Windsor and Getz (1999), as cited in Davis and Ruhe, (2003). They caution that any efforts to establish regional and global norms between the United States and the European Union would “face the difficulty of differing cultures, interests and values”. The wording of their caution identifies exactly the challenge, since the “norms to be established” in relation to corruption are in effect part and parcel of any local norms under the accepted definition of that term. In fact, their phrasing is appropriate since it implicitly holds that regional or global norms would face a challenge from existing cultural (Anglo Saxon) norms on corruption. Herein appears to lay the conundrum that may explain why there is such ambiguity in the definition process, and why it appears that attempts at defining the terminology are unevenly spread between different geographic regions, nation states and ethnicities. Even ostensibly more related and aligned jurisdictions like the United States and the European Union create this challenge. If this is the case, then more substantially different jurisdictions such as China, the United States and the European Union are expected to exacerbate and accentuate this divide.

An encompassing and workable definition

In order to answer the research question correctly it is important to select a workable definition of the terms being analysed, in spite of the apparent ambiguity in academic literature. In this context it is useful to consider the Oxford English Dictionary (OED), since it is a repository of definitions of English words that is based on changing perceptions and attitudes, inherent in the manner in which it was established and is maintained. A caveat applies to this approach, since any usage of any definition from the OED would by virtue of it being an English publication, addressing English vocabulary, be culturally informed and directed by the same social norms referred to by Windsor and Getz (1999). However, it must be noted that terms such as bribery, when translated into Chinese, denote moral wrong doing as much as it does in English (Steidlmeyer,

1999). In this thesis the OED definition is therefore repeatedly referred to, since many of the other terms and variables of the research question are found to be ill defined.

The OED defines Corruption in general as “The action of corrupting; the fact of being corrupted; the condition of being corrupt; corrupt matter; a corrupt example or form; corrupting agency: in the various physical, moral, and transferred applications of corrupt”. Under the different categories, there are definitions categorized under the physical, moral, and purity aspects and impacts of corruption. Based on the research question and its focus on culture, including norms, values and practices, more refined definitions under the subheading of morality have been noted as “A making or becoming morally corrupt; the fact or condition of being corrupt; moral deterioration or decay; depravity. A secondary definition in the moral domain notes that corruption is the “Perversion or destruction of integrity in the discharge of public duties by bribery or favour; the use or existence of corrupt practices, *esp.* in a state, public corporation, etc.” And finally corruption involves a “Corrupting influence or agency”. The different definitions hereby noted all find their origins in around 1340 through several authors including R. Rolle. These early writers all emphasized specifically the religious application of the term specifically, in line with the then extant dominance of the Catholic Church and its focus on art and literature as a means to exalt the authority of God in the world. This to some extent may explain the immediately moral connotation that the term Corruption elicits from a large segment of western respondents, steeped as they are in the Judeo Roman traditions, albeit at differing levels of intensity and involvement as time progresses. A Westerner’s negative attitude towards Chinese practices of gift giving (Steidlmeyer, 1999) may well be explained by such early Christian influenced writing.

In summary, the OED defines corruption as a noun that results from the act of corrupting (the verb), and rather than restrict the acts, actors, interest parties and positions taken as academic or institutional definitions have done, allows for a wide interpretation of what is corrupt and hence what constitutes corruption. A caveat should be noted here, since implicit in the wide ranging definition of corruption is its nexus to morality and ethics. As a consequence, this makes the judgment and evaluation of what constitutes corruption culturally or ethnically contingent by means of the values

in a specific jurisdiction or amongst any ethnic group which drive any culturally specific norms.

Definitions of fraud

Fraud

Similar to the challenges academics have found in pinning down the concept of corruption, fraud definitions have also either been poorly or not addressed in articles. Bierstaker (2009) refers to anti-fraud programs required by the legal provisions in the US Sarbanes Oxley Act (2002), and their interconnection with culture. He notes that cultural differences may affect the effective implementation of these programs globally, especially in “Asian cultures” (Weltzein-Hovik, 2007, as cited in Bierstaker, 2009, p. 241). The author is silent on any definition of fraud, which complicates the debate around the level of effectiveness of anti-fraud programs since any such effectiveness studies would be limited by taking into account only cultural parameters. Bierstaker also notes that 27 percent of fraud cases involve corruption, making “corruption the most common fraud scheme”. His statement accentuates the definitional challenges earlier referred to. The observation appears to fly in the face of common perception that corruption is perpetrated by means of fraud and bribery (the acts), as his conclusion is that corruption is an act that causes fraud. On the basis of other definitions, fraud is a common corruption scheme therefore, as opposed to corruption being a common fraud scheme. One could also argue that all fraud is corruption and that therefore all 100% of fraud cases lead to corruption, rather than involve it, based on the OED definition. The same erroneous approach is consistently confirmed subsequently in the article when discussing the attitudes of accountants in different geographic regions towards a “range of fraudulent activities, including corruption” (p. 242).

Ambiguity in usage

Borge (cited in Everett, Neu & Rahaman, 2007) does not posit fraud and corruption as subsets of each other, and instead notes that the role of the accountant is in fighting both fraud and corruption. This is echoed by Torres (2004). Everett, Neu and Rahaman (2007, p. 521) define fraud to be a more specific subset or “notion” of corruption,

reinforcing the perspective that fraud is a specific act inside the domain of corruption, together with other such acts like money laundering. IFAC (2003) makes similar comments, when it defines both fraud and smuggling to be acts of corruption. None of the above addressed the definition of fraud clearly, and so far fraud's connection to corruption and other acts is not very clear. Bonner, Palmrose and Young (1998) focus on fraud types related to financial reporting and auditor litigation. They also do not define fraud per se as a basis from which to lead in to their discussions on the types and taxonomy of fraud.

Fraud in China

Brody and Luo (2009) link fraud and white collar crime in China by virtue of two key definitions included in their writings. The connection between fraud and white collar crime is that "occupational fraud" is a part of white collar crime. Zhou and Cong (2001), *Ibid*, p. 317, define "occupational fraud" as part of white collar crime referring to an "act whereby the individual uses his or her position for personal benefit". This appears to be a familiar definition that has earlier been noted and used to define corruption. In fact, Macrae's definition in Malagueno *et al* (2010), while more verbose in its overall scope, notes corruption involves "the use or abuse of public or collective responsibility for private ends" (Macrae, 1982). Here we find a confusion over what constitutes fraud and what constitutes corruption, since nearly the same definitions are applied academically to either. If Brody and Luo's argument is to be followed further, then on this basis both corruption and fraud are part of white collar crime. By virtue of the definition provided for white collar crime, any fraud or corruption linked as acts to the crime are therefore considered as illegal. White collar crime is defined as "approximately a crime committed by a person of respectability and high social status in the course of his occupation": (Sutherland, 1949, as cited in Brody & Luo 2009, p. 317). This last definition ignores the moral impropriety of the act, and instead focuses exclusively on the issue of legal compliance. As noted earlier, fraud is not only illegal, it may also in many cases be immoral, depending on cultural norms and values.

Fraud in Indonesia

The term fraud is already referred to in the context of early Islamic law and institutions. One of the earliest such institutions established was al Hisba, established in the 7th and 8th centuries in what is now known as Saudi Arabia, to regulate the market and “prevent fraud” (Dima, David & Paiusan, 2010). The authors go no further than identify several other Islamic constructs that deal with fraud. Fraud prevention is also seen as a responsibility of finance and accounting functions in an Indonesian company according to Efferin and Hopper (2007). Schutte (2010) does not address the terms at all, in spite of the predominant corruption theme in her article. No attempt is made to identify the specific acts that lead to corruption, although the objective of the research is ostensibly to determine the effectiveness of anti-corruption agencies in Indonesia.

One cannot avoid the conclusion that fraud, similar to the term corruption, is both a poorly and wrongly defined concept academically. The single most credible defining attempt found in the academic articles selected comes from Brody and Luo(2009), in their linkage of fraud to white collar crime, while others have all remained silent on the subject. Even where there are insinuations as to what fraud is, such indicators are confusing, overlapping and unclear. These lacunae are important to be addressed if accountants are to be a critical part of the anti-fraud strategies that are mentioned by different authors. Similar to observations about corruption definitions, there is an urgent need to define clearly what is and what isn't fraud or bribery. The absence of clarity also affects the interpretation of cultural dimensions in relation to these terms. Although “cultural” dimensions are mentioned repeatedly, and attitudes are noted to vary between jurisdictions or any other arbitrarily selected definition of scope and dimension, it appears clear that without complete, comprehensive and accepted definitions it will be difficult to accurately observe and measure global variations in attitudes to the concepts being studied and compared between different ethnicities.

An encompassing and workable definition of fraud

The OED defines fraud as “The quality or disposition of being deceitful; faithlessness, insincerity” and notes this definition is now rarely used. Its first usage is recorded at around 1400, around the same time corruption has first been identified as a term. Its

etymology is from the Latin “fraus”, meaning deceit or injury. A further definition found is “Criminal deception; the using of false representations to obtain an unjust advantage or to injure the rights or interests of another.” Further, fraud is held to be “An act or instance of deception, an artifice by which the right or interest of another is injured, a dishonest trick or stratagem.” The repetitive use of deceit, the use of false representations or dishonesty to describe the term appear to indicate it is an act more commonly associated with reporting of a fact, or reporting per se, in line with the academic research that focuses on the role of accountants, including auditors, respectively wrongly reporting or detecting financial reporting errors to gain an “unjust advantage” and to “injure the rights of others”. In considering the OED definition for corruption, and its noted emphasis on the issue of moral decay, fraud can be held as an act of deceit that corrupts. It is dishonest, and undermines what society perceives to be honest in terms of a key virtue, and thereby corrupts. Regardless of the varying connections analysed or described in academic writing so far researched, it is clear that fraud is an act that corrupts and that it sits firmly underneath that term, not the other way around.

Definitions of bribery

Bribery

Similar to the challenges academics have found in pinning down the concept of corruption, and the term’s apparent amorously induced confusion, “Bribes and illegal gratuities” are also referred to as fraudulent activities (Bierstaker, 2009, p. 242). No further reference is made to the term and no definitions can be found in this academic work, and neither can any certainty or support be gained from other globally focused authors reviewed in this thesis, as the term is equally left unaddressed and undefined by them.

Bribery in China

An assessment and investigation of China related articles for this thesis also identified an absence of any reference to the term. This has reduced the discourse in this thesis to a consideration and review of a singular or at best, very few, academic articles.

Bierstaker (2009) noted that “more common forms of white-collar crime in China involve bribery and corruption.” (p. 318). This again alludes to the assumed connection between bribery and corruption by at least one academic author. The rationale for the connection between the terms should be no more and no less obvious than that which exists between the concepts of “nose” and “face”. In this context and considering the previous references to “acts” being performed by “actors”, Bierstaker’s reference may be considered tautological, since corruption is achieved by means of, amongst other acts, the act of bribery. Through repeated reference to the composition ‘bribery and corruption’ it appears Bierstaker wishes to impress this fact on the reader. None of the other authors reviewed for this thesis have made the connection so explicitly, with one exception. Steidlmeyer (2009) rarely deviates from the conjunction of “bribery and corruption”, which appears to confirm the implicit relationship between the act and the ultimate outcome rather more appropriately than the reverse. Steidlmeyer also does not proceed to define the term in question although he comes close when posing a question that raises a question as to “what degree does what appears to be bribery fulfil the conditions set forth in the abstract definition of bribery as a type of action?” No definition here, but a tantalizing allusion to a definition instead.

Bribery in Indonesia

Bosworth-Davies, 2008, in discussing the FCPA provisions previously referred to in other parts of this thesis, confirms that bribery is one of the “corrupt actions”, whereby non US companies not bound by the FCPA can advantage themselves in winning new business in Indonesia. No further reference or definitions are proposed in this article. Dima, David and Paiusan, (2010) do not mention bribery in their article at all, similar to other authors under review in this thesis. Bribery is also not addressed in Efferin and Hopper’s (2007) article, although it appears that an example labelled fraud is in fact one of bribery depending on the definition applied. If a dishonest employee negotiates secret commissions on procurement deals, then, applying Macrae’s definition used by Malagueno *et al* (2010), this would be defined as bribery rather than fraud. It appears that efforts to define bribery are similarly limited in Indonesia as it they are in China or globally, and that similar confusion may exist around what act constitutes bribery. As

with comments elsewhere in the same or similar context in this thesis, in not clearly defining the term, it will be challenging to treat it in any of the manners proposed.

An encompassing and workable definition of bribery

In the OED, bribery is defined as “The act or practice of giving or accepting money or some other payment with the object of corruptly influencing the judgement or action; the offer or acceptance of bribes; *spec.* the application of such influences to gain votes at a parliamentary or other election”. Bribery has equally been noted in early publications in England, although somewhat later than the terms corruption and fraud. The earliest reference is by Chaucer in 1386, when it denoted larceny, theft and robbery (OED). In subsequent centuries, the term came to denote the means by which one influenced the judiciary and judicial proceedings, which then evolved in the first mentioned definition which is most current. It may be noted that the linkage with corruption is logically established by these definitions. Bribery corruptly influences judgment or action, and thereby confirms that it is an act that leads to corruption. Equally, it may be noted that under the definition of bribery there is no distinction between public and private sector. Instead, bribery applies to the corruption of any action or judgement, which makes it universally applicable. As the OED notes, “the early sense of ‘theft, plunder, spoil’, appears to have been transferred to the ‘black mail’ or ‘baksheesh’ exacted by governors and judges who abused their positions, and thus to gifts received or given for corrupt purposes, whence the later sense of the verb.”

Definitions of ethnicity

Ethnicity is defined by various anthropologists as “a subjective belief in the common descent because of similarities of physical type or of customs or both, or because of memories of colonization and migration; this belief must be important for the propagation of group formation” (Weber, 1922, p. 389). Additionally, as Barth (1969) noted, an ethnic group is a population which “is largely biologically self-perpetuating, shares fundamental cultural values, realized in overt unity in cultural forms, makes up a field of communication and interaction, and has a membership which identifies itself,

and is identified by others, as constituting a category distinguishable from other categories of the same order.” Particularly emphasized is the “subjective” quality of ethnicity, which is also inherent in the definition of culture. Symbolism lends itself to subjectivity, and can be interpreted variably between individuals. Steidlmeyer (1999) notes a relevant example, in the form of symbolically acceptable practices such as “gift giving” in China, which are evaluated as “promiscuously corrupt” by Westerners (p. 121).

Ethnicity is not discussed or referred to in any of the literature reviewed for this thesis except for the work by Efferin and Hopper (2007), which discusses the situation of ethnic practices in the Indonesian business community. An interesting observation is that most academic works on ethnicity appear to be derived from field work in Indonesia, including Geertz (1973), Jacobsen (2006, 2007) and the referred to accounting paper by Efferin and Hopper (2007). As they note, there is a risk in using culture as an evaluation tool in research as it neglects issues of ethnicity and multiculturalism (p. 224). The reason why Indonesia may be such an interesting locale for academic studies on culture, ethnicity and accounting, may well be the fact that in many cases, judging an individual’s culture is highly “subjective”, even more so than judging culture by national boundaries. Indonesia is very rich in different ethnic groups and languages, as Chariri (2009) notes on p. 121. At the same time, the very limited references to ethnicity in the articles reviewed, as compared to the references to “culture”, appears to indicate that ethnicity is even less researched in relation to accounting and business.

Beliefs, attitudes, languages and norms.

From Gao and Handley-Schachler’s (2003) in-depth review of accounting history in China, most definitions of culture include the elements of belief, attitudes, languages, values and norms. They further posit generally on p. 45 that “Beliefs are cultural conventions. A belief differs from a value or the norm elements of culture. Value and norm are generalized notions that involve the standards of a society. A belief is a specific notion and it does not involve the standards of a society. A belief can refer to the worldview of that society and may be combined into an ideology, which may produce

cultural hegemony.” Ezzamel, Xiao and Pan (2007), note that ideology “entails the process of producing ideas, beliefs and values in social life” (Baradat, 1991, Van Dijk, 1998, as cited in Ezzamel, Xiao & Pan, 2007, p. 671). They conclude that this almost equates to culture, as defined by Eagleton (1991, p. 28) being “signifying practices and symbolic processes in a society”. Note the repeated reference to symbolism, which is a predominant theme in the anthropological definitions noted earlier. One would also have to question whether a belief does not directly involve a societal standard, since beliefs tend to be compared, either implicitly, or explicitly, with a commonly accepted social benchmark. An example is a personal belief held by an individual which leads to an infraction of the law, followed by an adjudication that legally compares the individual’s behaviour and thereby a particular belief, against the standards of society as enshrined in the law.

The OED notes that the term “Ethnic” is defined as “Pertaining to race; peculiar to a race or nation; ethnological. Also, pertaining to or having common racial, cultural, religious, or linguistic characteristics, esp. designating a racial or other group within a larger system; hence (*U.S. colloq.*), foreign, exotic.” In comparison, Barth’s definition in 1969 emphasized the self-perpetuating, sharing of fundamental cultural values, forms (symbolism), communication and interaction, and a membership that is distinguishable from other categories.

Regardless of the sensitivities over race and ethnicity, which have been excessively accentuated during the 20th Century and as a result continue in some varied form and amplitude depending on the geographical location of an observer, the OED definition appears to be essentially a simplified version of Barth’s. The sole additional parameter to be adjusted to the above definition might be Weber’s variable related to an assumed or even fabricated common ancestry, a common enough feature of modern ethnic debates. It is easy to justify cultural practices with ancient lineage that has lost its meaning along the way or possibly didn’t even exist in the first place. Myths become legends, legends become facts, and facts become reality by virtue of dominant beliefs and theoretical models, in a never ending cycle that appears to reflect the advice by the Taoist poet Seng Ts’an that “If you want to realize the truth, don’t be for or against” (p.9

of this thesis). The use of theoretical models to evaluate culture and find a truth is critiqued briefly in Appendix II.

Issues of ethnicity and culture

Norms, ethnicity and Chinese values

A predominant thread in China focused research is to use Confucianism as a philosophical basis or model to explain cultural norms, beliefs and practices. Au and Wong (2000) use one aspect of Confucianism, *guanxi*, as a factor to explore auditor's ethical decision making. Burton and Stewart (2008), cited in Brody and Luo (2009) explain that *guanxi* is "a complex cultural system of personal relationships – and moral obligations – which most Chinese see not only as a natural way of doing business but also as pragmatically necessary". It ranks relationships higher than other ethical considerations, not excluding things like a company's code of conduct and the law. Brody and Luo (2009) note that the ethical system (or model) in China can basically help mirror the noticeable dissimilarities between China and the West. They then progress to use Confucian dimensions by means of the five cardinal relationships to explain the different attitudes towards white collar crime. Brody and Luo's examples follow a different cultural model with alternative dimensions to those proposed by the Hofstede- Gray model. "Chinese people, when compared with Westerners, tend not to alter their external environment, and instead focus on adapting to their current surroundings" (Brody & Luo, 2009, p. 321). "Western beliefs stress that human beings have individual rights to seek truth and personal privacy and property, whereas Chinese beliefs tend to emphasize social harmony and balance and are comparatively relationship-oriented for virtue." (Brody & Luo, 2009, p. 320).

These last two comments warrant further analysis. The former focuses on the relationship between the individual and the environment, the latter on individuality as compared to collectivism, in relation to society. While individuality and collectivism are addressed by several of the aforementioned critiqued and discredited cultural models, (Joannides 2012, Baskerville, 2003), relationships and control over the environment are not. Apart from the absence of any reference to the environment as a dimension, time as

a concept is also ignored, notwithstanding the “Confucian factor” proposed subsequently by Hofstede and Bond (1988). Steidlmeier (1999) notes, in discussing the different organizational cultures found in Chinese as compared to US companies, that time is an important factor to be considered in assessing the differences. “Time is money” in the West, but time is put to the service of relationships in China, subservient to the higher goal of maintaining and strengthening guanxi. Not surprisingly, there is a different time focus in China in practice, and punctuality as practised in the west is often very much absent. On a practical level, a Chinese manager may therefore evaluate an employee’s actions based on the appropriateness of his or her motivations and the intent in relation to Confucian moral principles (Brody & Luo, 2009). In a similar manner, some academic researchers appear to evaluate Chinese culture on the basis of Confucian principles rather than descriptive models and dimensions.

Time and the environment are connected to each other, especially in the context of much earlier societies that were subject to the changes in seasons and the related fluctuations in supply and demand of much needed resources for survival. Time became of the essence where seasonal variations were more accentuated than in others. Controlling the environment thereby became a more essential task, to reduce or mitigate risks in the on-going supply of vital resources and survival of the tribe and the individual. Time spent on the building of stronger guanxi is driven by material changes in the environment leading to a weakened reliance on external support mechanisms by the individuals and groups that constitute society, as noted by Xin and Pearce (1996).

On that basis, it appears that other supposed parameters proposed under the guise of models for evaluation are derived from these two critical factors which were recognized belatedly as afterthoughts in the search for the discredited models of cultural evaluation. On the contrary, they should be considered primary and the bedrock from which all matters cultural or ethnic need to be considered. Any other belief, practice or social construct that results from apparent ethnic or cultural differences can ultimately be guided back to a simple question. The question poses and demands an answer to questions resulting from observed practice, norm or behaviour, and the answer therefore lies buried within the environment, just as seeds are lying dormant in the soil before the first spring sun provides warmth for their germination and ultimately

bearing of fruits. As Xin and Pearce (1996) identify, it is key environmental changes in the form of weakened social frameworks and systems that lead to the increased reliance on a cultural construct such as guanxi, which is in turn shared by an extended ethnic group that exists beyond borders. Beliefs, attitudes, norms (Gao & Handley-Schachler (2003) and values that may be deduced from observation can remain part of a confusing and opaque mixture, unless the analysis is brought back to the basic hypothesis that it is the environment that drives them. In the process of making sense of them, as humans are driven to do in order to understand the other, the answer is simple and yet complex. It doesn't need to lead to confusion or a sense of being overwhelmed, as the foreigner who arrives for the first time in a foreign environment.

As noted earlier, it should not be ignored that there is a hierarchical relationship inherent in the words used to label the concepts in this discussion. Their relationship makes them part of the environment. An additional step that needs to be taken in the process of sense making is therefore to recognize that values are not culturally or ethnically bound or predicated. Values are universal and remain so, but are at times out of synchronization with practices, beliefs and norms for the simple fact that culture is eternally in a mode of flux, just as ethnicity is, due to fluctuations in the environment. During such times of change the external observer may be left perplexed, since the overt and observable actions of individuals and ethnic groups may appear completely foreign or inconsistent. The reason is that the environment is driving such visible actions in spite of the existence of dominant global values. The observable evidence from the environment does not necessarily indicate a major long term departure from these existing and common values, but will for some time appear to do so. The process of readjustment and return to steady state is thereby very similar to the transition of the state of a compound from solid to liquid to gaseous, as postulated to occur and supported by universal Laws of Thermodynamics. Solids do not turn into gases unless pressure is applied. Ethnic groups do not change culturally linked behaviour unless pressure is applied to their environment. The core and essential values remain consistent.

Norms, ethnicity and Indonesian values

Only one of the Indonesian articles sourced for this literature review refers to philosophical constructs in Indonesia that may impact on accounting systems, as referred to previously, in the form of Confucianism (Efferin & Hopper (2009). The authors are also the sole academics to refer to the term “ethnicity” as noted earlier. Alternatively, Christian moral ideology is researched in relation to money laundering by Bosworth-Davies, (2009). Interesting issues arise when considering a confluence of underlying philosophies, as considered by Efferin and Hopper (2009) when they discuss the case of an ethnically Chinese Indonesian entrepreneur, a bachelor, who is a member of the Catholic Church and has an MBA from a well-respected US university. It highlights again the apparent diversity of variables that affect the ability of the observer to determine individual ethnicity derived frameworks and likely responses to situations, based on any specific ecological factors such as religion or philosophy, or models as proposed by some academics. As Efferin and Hopper (2009) note, “Cultural contingency research based on surveys, often using cultural constructs from Hofstede (1980), has neglected issues of ethnicity and multi-culturalism.” (p. 224). The challenges in interpreting norms, beliefs and practices would increase dramatically if it was subsequently found that the individual referred to married a devout Muslim partner, not an unusual situation in Indonesia. The Hofstede – Gray model has been used in only two of the 20 articles selected, to study the association between culture and accounting in Indonesia (Sudarwan, 1994). A further caveat to the completeness of Gray’s model is proposed by Chanchani and MacGregor (1999) when they noted that “A question arises as to the possible existence of other, as yet unrecognized, accounting-value constructs.” The value and impact of cultural influencers is echoed also by authors such as Chariri (2009), who notes, in the Indonesian context, that “empirical studies have not provided conclusive and convincing evidence” to explain the usefulness of financial reporting. Instead, the author believes the “Cultural perspective of accounting” should be considered, as will be discussed further in this thesis.

Further reflections on Indonesian pluralist ethnicities

The historic language diversity of Indonesia and Malaysia, based on references to ancient language influences from Sanskrit and other dominant language groups as noted, is amplified by the more than 700 distinct ethnic languages spoken in Indonesia across the “world’s largest archipelago” (Chariri, 2009, p. 121). Chariri also notes an ethnic diversity but not to the full extent possible or reflective of reality. Whereas Malaysia, where ethnic based accounting research is a common feature of the academic landscape (Ahmad, Houghton & Yusof, 2006), and which has only some distinct ethnic groups numbering in single digits according to these authors, Chariri similarly understates the case in Indonesia by noting that Indonesian ethnicities include only “Javanese (45 percent)”, “Sundanese (14 percent)”, “Madurase, (7.5 percent)” and “Coastal Malays, (7.5 percent)” as per ADB, 2003, cited in Chariri, 2009, p.121.) The reality is somewhat different and the plurality of Indonesia is recognized globally. The World Factbook (CIA, 2012), notes, additionally to the list provided by the ADB, ethnic groups such as the Minangkabau, the Batavi, Bugis, Banten, Banjar and another 29.6% of “other or unspecified”, according to the 2000 Indonesian census. In spite of the effort by the CIA to add these ethnically distinct groups, their list is also incomplete and ignores distinct ethnic groups such as Acehnese, Batak, Toraja, Maluku, Iban and Dayak, amongst others. The same World Factbook (CIA) does not confirm how many distinct languages exist in the whole of Indonesia and refers instead to “local dialects”. There are 726 distinct languages in Indonesia, of which “719 are living languages” (Ethnologue, 2012). Ethnologue emphasizes “languages”, not dialects, as the CIA does in their Factbook. Similar comparative numbers from the same website are 292 living languages in China and 137 in Malaysia. If “linguistic characteristics”, as noted by the OED definition, are a material factor in defining ethnicity, it can be argued that Indonesia is one of the most diverse ethnic nations on earth, as it is generally acknowledged to be. This does not become apparent from the literature review in this thesis which has found a notable absence of any references to ethnicity. To further emphasize this point from a different perspective, Indonesia is home to roughly ten percent of all distinct languages, with a population that equals only around 3% of the world’s population.

In contrast, while ethnicity is not specifically mentioned in most articles selected for this thesis focusing on China and Indonesia, the same cannot be said for Malaysia. Although Malaysia has been largely excluded from the thesis research due to reasons elaborated upon in the Introduction, this material difference was deemed to be sufficiently notable to be mentioned here. As Ahmad, Houghton and Yusof (2006) note, ethnicity is deemed to be highly relevant in Malaysian contextual research due to the fact that it is an issue of some note there. "In some countries, issues of ethnicity have had political overtones, and have resulted in allegations of prejudice, discrimination, hostility and even violence" (p. 703). What is remarkable is that Malaysia, China and Indonesia share incidents of "prejudice, hostility and even violence", as evidenced by well documented race related riots and acts of individual aggression (Jacobsen, 2006), and that this has resulted in coverage of ethnicity in accounting and business related research in Malaysia but not Indonesia nor China. The question arises why, in a country that is also arguably ethnically diverse, the same absence of focus on ethnicity also holds for China. It may well be due to the different political influences and policies in either nation under review for this thesis. It may also be due to the influence of political communications on the academic world and its focus.

A further assessment of the coverage of ethnicity in academic literature is therefore warranted and is documented in the next chapter. This looks at the way culture and ethnicity have been invoked in academic business related literature, to determine how authors have dealt with the various challenges so far identified.

CHAPTER 4 : THE INVOCATION OF CULTURE AND ETHNICITY IN ACADEMIC BUSINESS-RELATED STUDIES

As a result of the literature search efforts documented in Chapter two it was concluded that there is an overall scarcity of specific academic research on corruption, fraud, financial accounting reporting in the countries selected, addressing or assisting the reader in understanding the impact of culture or ethnicity on corruption, bribery, fraud and financial reporting. Ethnicity or cultural values are rarely researched in connection with corruption, (Davis & Ruhe, 2004), especially in relation to a perspective of underlying (shared) values. In spite of such findings emphasizing the lack of such research, the impact of cultural norms on accounting generally, including accounting practice, is perceived to be recently much more debated (Chanchani & MacGregor, 1999, p.1). It appears this increasing propensity to consider “culture” in relation to accounting resulted from much earlier research that recognized accounting is shaped by and shapes its environment, thereby confirming that the legacy of Hofstede’s “culture” is a “crucial environmental factor” in this respect (Mueller, 1967, Zeff, 1972, as cited by Chow, Chau & Gray, 1995, p. 29), as well as Chariri (2006). Hines (1992), as cited in Gao and Handley-Schachler (2010), p. 42 argues, in this context, that “The present worldwide domination of thinking, discourse, decision-making and behaviour by the language of accounting – financial, management, government and international – both reflects and socially reproduces a particular set of cultural values and conceptions of reality”. This in contrast to others including Munro, cited in Chariri, 2009, where he notes that accounting is seen as “Value free”, “Neutral” and “Technical” only in nature (p. 118). Notwithstanding the few voices that may have joined Munro at varying stages of the debate, a consideration of accounting as a “language” as Hines put it, appears to be the more realistic option, hence raising questions about what influences that “language” and how it evolved and influences others in its usage, within ethnic groups and as part of cultural norms.

Cultural norms and values (rather than ethnicity) are also confirmed to affect accounting standards setting (Bloom & Naciri, 1989, Ding *et al*, 2005, Schultz & Lopez, 2001, as cited in Heidhues & Patel, 2011, p.274) and influence auditor’s independence

(Agacer & Douppnik, 1991, Hwang *et al*, 2008, Patel & Psaros, 2000, as cited in Heidhues & Patel, 2011, p. 274). Globally applied accounting related management principles include accounting standards, which are increasingly converging through the process of worldwide harmonization (Heidhues & Patel, 2010, p. 273). Tsui (2001, as cited in Chen & Chan 2009, p. 113) examined the impact of “culture” on the behaviour and attitudes of managers in budgetary participation, finding negative interaction between management accounting systems and budgetary participation on the part of Chinese managers. Since the focus of their research was within an ethnic group of Chinese managers, it is notable that they do not mention the term “ethnicity” in their research, as an example of Chinese focused research papers selected for this thesis which did not address the concept of ethnicity. This is more or less what appears to be the case in all other research on these topics in Chinese ethnic settings. The term “ethnicity” cannot be located. While the international implementation and maintenance of accounting frameworks, systems and practice is thus confirmed to be affected by “culture”, composed of ethnically shared values and cultural norms, the “ethnic” perspective is generally neglected, including in researching anti-fraud and corruption systems and practices (Bierstaker, 2009). Similar findings are echoed in research focussed on Indonesia, including Sudarwan (1995), Chariri (2006) and the last author again in 2009. Although, as previously mentioned, ethnicity is referred to by implication, its lack of direct reference is a notable omission.

Corruption, ethnicity and jurisdictional specificity

In contrast to articles that addressed at least the issue of cultural norms, some of the articles selected on the basis of the thesis methodology did not refer to either culture or ethnicity. Such articles were nevertheless included in the literature listing based on their coverage of other thesis topics in focus, especially in relation to corruption. A common trend is the universal perspective of these corruption focused articles. They included literature reviews covering articles globally on the topic of corruption and accounting (Everett, Neu & Rahaman, 2007), the analysis of the relationships between ethics and corruption globally (Everett, Neu & Rahaman, 2006) and exploring the global causes of corruption (Treisman, 2000). No reference to culture or ethnicity was found in these globally focused papers, exploring the apparently universal phenomenon of

corruption. Instead, other relationships and connections were explored, including the impact of race, class and gender (Everett, Neu & Rahaman, 2007), the interpretation by means of theoretical models of governance, such as Foucault (Everett, Neu & Rahaman, 2006) or as Treisman (2000) p. 399 notes, the “particular historical and cultural traditions, levels of economic development, political institutions, and government policies”. From the perspective of this thesis, such articles are important as much for what they noted as for what was left unstated, based on the suggested role of accountants in combatting corruption globally. Everett, Neu and Rahaman (2007) noted that accountants have a world encompassing role in the fight against corruption. If, as is suggested, corruption is a global issue, then it is clear that the frameworks and systems at the accountant’s disposal for that specific purpose, and their effective implementation in any worldwide setting, should be explored as a precondition for the successful reduction in corruption worldwide. Based on this perspective, accounting is considered to be a service function (Choi & Mueller, 1984 as cited in Chanchani & MacGregor 1999, p.1), and since those services are delivered in different environments globally, the accounting services must be adapted to the varied cultural and ethnic settings to recognize the personal aspects of service delivery inherent in accounting. Service delivery as part of the accountant’s combat mission requires comparatively greater interaction between service provider and stakeholders, and therefore a greater level of communication and interaction with the recipients in a service transaction as compared to the provision of tangible goods. Any local cultural or ethnically induced influences as regards the establishment of effective accounting frameworks and practice should hence also be explored as part of researching the anti-corruption combat role of accountants, specifically to address the equally global nature of corruption.

Cultural norms and ethnic values in China – The case of guanxi

Compared to the academic exploration of the wide range of linkages between culture, corruption and accounting globally, including sub components and aspects of each, much of similar academic research in China has the stated objective of determining the level of progress in reforming accounting systems and policies in China (Chen & Chan, 2009, Chen *et al*, 2002, Chow *et al*, 1995). Such reform focused research equally utilized

specific cultural aspects to try and explain the reason for the variability in progress made against expectations. Ethnicity is not addressed as noted before.

In general, China specific research has taken an approach of focusing on specific sub components from either the social or the accounting universe. In line with the continua between less and more refined approaches, a specific “cultural” approach has been taken in linking auditor’s ethical decision making and judgment (an accounting aspect), (Au & Wong, 2002), and the impact of guanxi (a cultural “influence”). The concept of guanxi is noted to be a typical Chinese cultural aspect and is often related to its philosophical basis to explain it, Confucianism (Au & Wong, 2002) as noted in Chapter three. On the other hand guanxi is used to explain as a driver for accounting related judgments, including business ethics (Chan, Kip & Lam, 2009), client acceptance procedures (Tang, 1999 as cited in Chow, Ho & Mo, 2006, p.3) and auditor relationships (Chow, Ho & Mo, 2006). Guanxi was as a result found to have a defined relationship and impact on accounting aspects researched. There are other views on why guanxi is such a predominant (and often daunting) concept in relation to accounting and other economic aspects in China . Yang (1994) as cited in Xin and Pearce, (1996, p. 1642) notes that guanxi is a dyadic relationship that is based implicitly, not explicitly, on mutual interest and benefits. Through a kind of virtual balance sheet, debits and credits are recorded in the memory of the individuals, so that favours create a debt which can be collected and repaid at some point in the future, as an intangible receivable. Since the balance sheet is in effect ephemeral and undefined, except for the persons that are party to the transaction, trust is a critical factor in ensuring future collectability. A Chinese proverb advises that “All good relationships are rooted in trust” or 所有良好的合作关系是源于信任. The concept of trust , as Kriz and Keating (2010) note, requires “The heart-and-mind confidence and belief that the other person will perform, in a positive manner, what is expected of him or her, regardless of whether that expectation is stated or implied.” Trust is built via guanxi rather than via formal institutional law, regulations and contracts. This highlights the importance of “social credit rating” to build trust via help, (bangzhu, 帮助) and reciprocal help (huzhu or 互助). In China, guanxi does not carry the negative connotations referred to earlier, and in fact, competing in an open and transparent manner for contracts is considered “stupid and disloyal” (Alston, 1989,

Chen & Pan, 1993, Hwang, 1987, Lockett, 1988, Yau, 1988, as cited in Xin & Pearce, 1996, p. 1642).

Confucianism and the Chinese ethnic diaspora

Since *guanxi* is considered to be a result of Confucian principles circumscribing relationships, Confucianism is in itself also explored in some detail. Waldmann (2000) notes that “Confucian philosophy is the essential basis of Chinese culture” (as cited in Gao & Handley-Schachler, p. 44). The essentially East Asian philosophy of Confucianism originated in the province of Shandong, which is acknowledged to be the birthplace of many of the cultural and communication practices the visitor would encounter today, including calligraphy. It prescribes five cardinal relationships (Brody & Luo, 2009), and advocates five virtues to raise the level of personal behaviour (Gao & Handley-Schachler, 2003, p. 44). Confucianism is linked to a number of accounting aspects including the level of progress with the introduction of western accounting “principles, practices and standards” (Gao & Handley-Schachler, 2003), fraud and white collar crime, (Brody & Luo, 2009) and accounting reforms (Chow, Chau & Gray, 1995).

Waldmann’s statement ignores the impact of Confucian philosophy on other East Asian countries such as South Korea, Japan and the countries in South East Asia by virtue of the relatively sizeable communities of overseas Chinese that live there, practising their individually distinct languages, including Hokkien (Fujian), Cantonese (Guangdong) and Hakka (Fujian/ Guangdong), to name but a few. It is possibly more apt to suggest that Confucian philosophy is one of the essential common denominators that define Chinese ethnicity and that need to be considered as one of several major influences on cultural values. China is host to so many distinct languages (Ethnologue, 2012), including the aforementioned, that linguistic similarities as proposed by the OED definition of ethnicity may not be an accurate standard by which to measure Chinese ethnicity. Language appears to be more useful as an assessment tool within a number of predominant factors that the same OED definition emphasizes also includes common racial, religious and cultural factors. As per the discussion on dominant philosophical influences in Indonesia, China as a nation state of varying sizes and with varying boundaries historically, has also been subject to the introduction of numerous

consecutive or contemporaneous philosophies vying for attention, and adherents which have in turn affected all the four OED factors, causing a layering of cultural influences over time.

Regardless of the statement that Confucianism is the essential “basis” (Waldmann, 2000), Jacobsen’s research in Manado (2006) further confirms what may be sensed during practical engagements with China and South East Asia. This is the aforementioned layered complexity of all different influencers to create the reality on offer today, which may prompt the observer to ask whether Confucianism is the only basis. In the centre of Manado exists an old Chinese temple, which is said to be Taoist. The temple is historically dedicated to a “Taoist interpretation of Buddhism” (p. 81). On previous Suharto era government orders, apparently, the temple was forced to display prominently effigies and statues of all three major Buddhist philosophies, being the Theravada, Mahayana and the Tantrayana. Jacobsen may have confused matters when he appears to indicate that this trio of branches is labelled as “Tri dharma” in Indonesian and that this consists of Buddhism, Taoism and Confucianism. The last three are quite distinct eastern philosophies with distinct origins and worldviews as compared to the three branches of Buddhism that developed over time and in different geographic locations throughout Asia. Their combination as a trio into a branch of philosophy called Tri Dharma was started by the well-known Indonesian Chinese writer Kwee Tekhoay in 1938 in Jakarta. The origins of this combined philosophy were noted by the International Conference on Buddhism (2011). The term “Tri Dharma” is a Sanskrit term meaning three teachings, confirming the important role Sanskrit still plays in daily Indonesian life, as earlier noted. The same term is also applied in higher education to remind scholars of their responsibilities towards education, research and community service. The temple would not have been allowed to remain open without the offering of the Tri Dharma, according to an official interviewed.

As a result of the description of the temple in Manado one is left with the conclusion that, apart from the tri-partition of Buddhism, there are also three major philosophies that congregate in that particular temple based on another sub branch that was apparently established in 1938. This philosophical complexity is increased by the fact that the temple is also dedicated to a specific god in the Taoist pantheon, called T’ien

Hou (*Ibid.*) who is the goddess of the sea and heaven. The seafaring ancestors of the local ethnic Chinese that arrived from Fujian province through the old port city of Amoy (nowadays Xiamen), with its own distinct language and cultural practices, brought with them a most appropriate deity related to their daily pre occupations to survive in the face of constant maritime vagaries. This example confirms that the environment drives cultural values and beliefs amongst particular ethnic groups. In this case, a government demand put on a temple, and the origins and operating environment of the ethnic group being researched are some of the factors. Environmental factors also no doubt caused the development of the three branches of Buddhism, including distance. It appears that Tri Dharma was established with the objective of keeping ethnic Chinese loyal to “Chinese” philosophies (International Conference on Buddhism, 2011).

A further example of cultural and ethnic diversity pertains to the origins of the aforementioned Hakka, which counts well known leaders internationally amongst its ethnic population including Lee Kuan Yew, former Prime Minister of Singapore, and referred to earlier. Research using mitochondrial chromosome tracing has identified this ethnic sub group is in fact an amalgam of many ancestral influences, including indigenous and aboriginal. The predominant contribution of the DNA is in fact from the Han, at around 80% (US National Library of Medicine, 2012). The remaining DNA contributions from minority groups including She and Kam are not unlikely to also be responsible for some of the distinct ethnic practices of present day Hakka, including the touristically attractive round houses, which are not found anywhere else in China or ethnic Chinese regions of domicile. This is an interesting example of clarifying why certain practices exist, using historical detective work to determine and confirm or corroborate ancestry in order to explain the observed. For the Hakka are Han Chinese and would be expected to follow ethnic Han cultural norms, whereas they are observed to do something interestingly different in living in a unique style of dwelling, samples of which in Fujian province were inscribed on the UNESCO protected heritage sites listing in 2008 (UNESCO, 2008). The same source also notes that this unique type of buildings was built originally for defensive purposes, which neatly brings the discussion back to the environment as a driver of cultural norms and practices. Environmental pressures cause changes in cultural norms and practices.

On that basis therefore, another way to view Confucianism is to see it as part of the philosophical palette in existence in China and therefore not the exclusive philosophical driver of culture. As Gao and Handley-Schachler (2003) note, as with the example concerning Hakka dwelling practices, the reality is somewhat more complex than determining that only one philosophy is exclusively responsible for the social and political values we see today. In line with the discussed observations around a temple in Manado, they therefore researched additional philosophies, including Buddhism, Taoism and even meta-physical constructs such as Feng Shui, that may have an impact on cultural norms and hence accounting in China. Each of these particular frameworks has its own origins, antecedents and frameworks, which, if studied more deeply, will identify that they are distinct and take distinctive approaches in prescribing the path towards an the elusive state of happiness. Taoism is, for example, much less prescriptive in its practice than Confucianism and avoids detailed guidelines for its adherents. It is more focused on the human's role and relationship with the universe, in order to create harmony between the individual and the universal forces. In contrast, Confucianism targets the daily human perspective and actions, in order to create harmony inside a society, between the individual and society, and at its most microscopic level, inside the family unit. Both philosophies are arguably the result of the long and painful period of the Warring States in China, which was approximately between 403 and 221 CE. The initiators or founders of these philosophies took different approaches to determine and then prescribe what creates a peaceful and harmonious society, in contrast to the very bloody and equally discordant societies that existed during that period. It can thus be considered myopic to exclusively focus on one or the other philosophy to make sense of the diversity of cultural and shared ethnic values and their influence on accounting in China or amongst the Chinese diaspora in South East Asia.

The hypothesized date of inception of Confucian and Taoist principles is held to be around 500 CE. It is well established that Chinese cultural principles and values originate before that date and that they, and the aforementioned philosophies, originate from the I Ching, a book that has been referred to and which has its antecedents in earlier writings from China around 2,500 CE (Huang, 1994). It raises a question

whether this grandmother of all Chinese literature and philosophy should not be studied more deeply in relation to accounting and in conjunction with the above mentioned philosophies. The statement from the I Ching that the only constant in the world is change itself has potentially material impact on accounting, since this profession aims to create certainty and reliability, because or in spite of the on-going changeability of the world around us. History is clearly useful in explaining the evolution of Chinese culture, and one may note the various epochs accounting researchers have focused on to make sense of accounting reform ranging from 500 CE until the last century, including Maoism and Dengism (Ezzamel, Xiao & Pan, 2007).

Cultural norms and ethnic values in Indonesia

The Javanese ethnic group is considered to be the predominant ethnic group in the world's fourth largest nation (ADB 2003, as cited in Chariri, 2006, p. 121). Javanese cultural influences would therefore likely be pre-dominant in Indonesia, even though Chariri refers to the many other ethnic groups that populate this archipelago, including Sundanese, Madurese and coastal Malays. A question arises whether not all the ethnic groups in Malaysia, Indonesia and the Philippines are effectively ethnically Malay, whereby the classifications provided by Chariri are in fact tribal, sub ethnic or group affiliations, not dissimilar to Hakka being ethnically distinct as a group but ethnically Chinese. In other words, Sundanese and Javanese may in effect be Malay ethnicities, as possibly are the aforementioned Minangkabau and Batak on the island of Sumatra, or the Northern Kelantanese in peninsular Malaysia. This is echoed by Tabalujan (2001), who notes that Javanese, Bataks, Sundanese and Acehnese are indigenous Indonesians "of various ethnic groups" (p. 25). Some doubt is cast on this notion by Noor (2009) who notes that "Malayness" is in fact a foreign notion introduced particularly by the British as part of their geopolitical strategies and that it has become increasingly abstract as a term (p. 75). On the same page he refers to the apparent marked distinctions to be found between a Batak and a Javanese, likening their ethnic differences to those of the level found between a Dutchman and a Mexican. An interesting corroboration of Noor's assertion can be found by means of the same mitochondrial research mentioned in relation to the Hakka. It finds Batak to be very different from Javanese since they belong

to a classification called Negritos (US National Library of Medicine, 2012). On the other hand, Chariri refers to a number of authors to make the point that a dominant culture imposes pervasive cultural influences, as a basis for his selectivity. One could question the approach as it forces the Indonesian Malay perspective into a Javanese straitjacket and may therefore overlook the obvious ethnicity question, which is that the majority of the peoples living in the three aforementioned countries, except for Melanesians further south and aforementioned Negritos (known locally as Orang Asli), are in fact Malay. This last observation has been noted and discussed previously in Section e. vii, with reference to the diversity of language amongst the ethnic Malay group.

One “cultural” accounting study in Indonesia tested the Hofstede – Gray model and found there is no positive correlation with Gray’s cultural dimension of “authority” (Askary, 2006) in relation to accounting professionalism. This is in line with Sudarwan (1995) who applied his focus to the Hofstede- Gray model dimensions and concluded that there is a significant correlation for some of Hofstede’s and Gray’s dimensions, but not for professionalism and secrecy. Other studies have not directly analysed these so called cultural dimensions in Indonesia, but have instead focussed on explaining the influence of external Christian moral ideology on the attitudes towards anti money laundering initiatives in South East Asia (Bosworth- Davies, 2008). There may be distinct differences between ethnic groups in Indonesia in terms of their attitudes and approach to the cultural dimensions of professionalism and secrecy. Some ethnic groups may well perceive matters quite differently from any other within the Indonesian or Malay context. Sudarwan (1995) aims to examine and report on cultural characteristics of Indonesian society, financial reporting and accounting standards. Saudaragan (1998) researches accounting standards harmonization in ASEAN, but no mention is made of culture.

A few authors have analysed specific aspects or cultural drivers, such as ethnical social relationships from a Javanese perspective, essentially breaking down the concept of culture and ethnicity further to “relationships” and “Java” respectively (Chariri, 2006). The same author in 2009 has also focussed on explaining cultural impacts on financial reporting through the lens of Javanese culture. Very little other research has apparently been done to investigate the particular impact of culture or ethnicity on financial

reporting. Previous studies are, according to Chariri, affected by their colonisation of efficiency (Tinker, 1991, as cited in Chariri, 2009), and therefore ignore the so called cultural dimensions. Exceptions appear to be by a small number of authors, including Sudarwan and Fogarty (1996) and Tabalujan (2001, 2002), who also studied Javanese culture and its influence on financial reporting. As a result, Tabalujan concluded, in the context of corporate governance in the Indonesian banking sector, that insufficient research had been done to find out the differences and similarities between ethnically Chinese and ethnically Indonesian run companies. He noted, in this context, that the introduction of any corporate governance changes in Indonesia would be akin to the proverbial story of “Five blind men describing an elephant”. That this particular aphorism has its origins in Hinduism and ancient India should be no surprise, based on the aforementioned complex layering of cultural practices and norms and the reference to Sanskrit linguistic influences on both Malaysian and Indonesian languages. Variants of the story are also found in the Chinese language, and the story is supposedly thousands of years old. (Duen, 2008).

The interaction between Confucianism and Javanese culture in a Chinese run company in Indonesia is explored by Efferin and Hopper (2007) but it doesn't compare the two. That interaction in a different social context is also found in Jacobsen (2006) where he recounts the experiences of the Taoist temple in Manado. Typical Taoist celebrations are attended by adherents of all major philosophies with the same zest and passion for the event, according to Jacobsen. One can find Muslims, Taoists, Buddhists and Christian youth involved in the processions and public aspects of the Taoist day of Cap Go Meh (Night of the 15th in Hokkien, p. 82). Jacobsen makes the point that one cannot on this basis assume that other philosophies or religious adherents are converting en masse to Taoism. In the same manner, it is questionable whether it is possible to infer from observations and statistics that Javanese influences have in fact been pre dominant or remain so in society, including financial reporting as Chariri believes these influences to be (p. 123).

Javanese culture and social harmony – The case of Javanese Bapakism

According to Chariri (2009), Javanese culture is hallmarked by a desire to maintain social harmony. This is not a dissimilar objective as the one noted in the discussion on guanxi and Confucianism in China previously, and similar to Malay ethnic cultural objectives generally or in fact most Asian ethnic groups, as reflected in their cultural practices and norms. In order to achieve harmony, social hierarchies are rigorously adhered to through rituals of respect, collectivism is prized over individuality and conflict avoidance is absolutely necessary to avoid destabilizing the sensitive balances needed to maintain harmonious hierarchies. Kanungo and Mendonca (1996), as cited in Chariri (2009, p.123), equally note that these cultural traits are reflected in the microcosm of organizations.

Chariri (2009) further mentions that Javanese culture is identifiable by specific cultural norms, including the concepts of Bapakism, musyarawah (mutual deliberation or consensus) and mufakat (Common unanimous decision making) as described on p. 124. The latter two concepts are Islamic concepts imported into Javanese culture, and former concept is reflected and emphasized by means of the transmission of the legend of Hang Tuah, as explained by Noor, (2009). Bapakism is translated literally as “Fatherism” or what is also known as Paternalism, and appears to be a logical outcome of a defined and stratified society where relationships are determined by a hierarchy based on age and antecedents in order to promote social harmony. It may be useful to recall here that Confucianism also emphasizes the strict order of relationships, based on age, antecedents and status. One could argue therefore that Javanese and Chinese ethnicities and their respective cultural values are not as different as one would expect. Finally, Bapakism finds its daily reflection when the person to be respected is addressed as “Bapak” to denote the honorific and unofficial status of the person addressed. It should be noted that such honorific titles in the form of “older” or “Big” brother also exist in other Asian ethnic groups and languages, including Abang (Malaysia), Bawng (Cambodia), Ta Ge (大哥, China), or pee chaai (พี่ชาย, Thailand) for exactly the same Confucian, and as now confirmed, Javanese reasons. The possible convergence of cultural practices appears to be crystallizing in spite of the wide ranging philosophical influences that have been explored in the context of China and Indonesia.

The impact of Islam

While a material portion of Indonesia's population may be of Javanese ethnicity (45%), the percentage of practising muslims in Indonesia is around double that figure at 90%. One should therefore not ignore the impact of the religious concepts and Arabic culture that have influenced attitudes towards corruption, bribery, fraud and financial reporting. The challenge lies in determining what is specifically Javanese and what specifically Muslim, as noted earlier in reference to the terms of musyarawah and mufakat. Dima, David and Paiusan (2010) are the sole authors identified as a result of the literature search that attempt to research and analyse the impact of islamic factors on accounting in Indonesia.

Overall it appears logical to posit that there is a need in accounting research related to ethnicity and culture to recognize the diversity and often confusing mis-directions resulting in the risk of misinterpretation of the observed or researched, or to remain in a "fog" (Lewin, 1946, p. 34). To understand "culture" it appears to be necessary to investigate deeply in all aspects and domains, including environment, language, history, sociology and genealogy to first confirm the values and common patterns observed, and to clarify any unusually predominant values. This appears to be the only thorough manner in which to evaluate and conclude sensibly on any cultural norms, practices and behaviours, although even with the best efforts, misunderstandings or misinterpretations may arise. In the end it is the on-going and perpetual practice of ethnic and cultural investigation, in situ et in carne, which may hold out the best results. This observation may lead to conclusions as to the optimal way to conduct further research, including research methods such as Action Research as proposed by Lewin (1946).

By logical extension, the assessment of the connections between fraud, corruption and accounting, which is described in Chapters five and six respectively, will commence with a quantification of the problems created by the former two issues listed. It is hoped to thereby avoid any foggy misunderstandings that may arise from any ambiguities arising from their academic treatment in business related research.

CHAPTER 5: FRAUD AND ACCOUNTING

“Total fraud costs globally amount to around US\$ 3.5 trillion.” (ACFE, 2012)

Global financial impact of fraud

Bierstaker (2009, p. 242), notes that corporations globally lose around 7% of gross revenues annually, according to an Association of Certified Fraud Examiners (ACFE) report from 2008. Similarly, Zhuang *et al* (2005), as cited in Bierstaker, 2009, p. 242) noted that 538 companies surveyed in 15 European countries reported their fraud costs amounted to US\$ 3.6 billion. Since fraud has been noted to be materially more researched in connection to accounting than the relationship between corruption and accounting, it is instructive to introduce the subject of fraud and financial reporting with a section on the estimated quantitative global financial impact. Theoretically and practically, the trifecta of corruption, bribery and fraud related transactions causes traumatic financial impacts on accounting bottom lines globally, and should therefore be of major interest and concern to accountants. In their latest update called the 2012 Report to the Nations, the aforementioned ACFE noted that a typical organization loses around 5% of its revenues to fraud each year. Based on their extrapolation using 2011 global Gross World Product (GWP) figures, this equates to around US\$ 3.5 trillion (ACFE, 2012). To put this figure in perspective, this represents slightly less than 25% of the total debt of the United States of America, based on the latest figures, but it recurs annually and is increasing. It also represents slightly over half the total US debt held by foreign investors, including China, according to the US Debt Clock which tracks debt by the second (US National Debt Clock, June 2012).

Overall, very few other authors studied have elaborated on or stated the financial quantum and impact of fraud. Merchant noted in 2008 (as cited in Joannides, 2012) that there are a number of reasons why interpretative academic research never reaches mainstream. According to Joannides (2012), paraphrasing Merchant (2008), interpretative researchers fail to effectively communicate and in addition propose recommendations that are irrelevant to practitioners. One of the main reasons

proposed recommendations are deemed or assumed to be irrelevant is because they do not fit the established requirements from “Positive Accounting”, which is to quantify any activity. As is slowly becoming clear in this thesis, there are no easy answers to the complex questions created by ethnicity and cultural norms. There does not appear to be a Holy Grail, theory or model that easily and digestibly explains the observed practices and behaviours in different ethnic or cultural settings, in order to make sense of connections, causes and outcomes of corruption, bribery and fraud and to find our way out of Lewin’s “fog”. Since accounting, as a numerically driven discipline, looks for figures rather than conjecture, it is therefore not surprising that qualitative interpretative research and findings find a poor reception. Though this may be the case, the quantification of the total estimated financial and detrimental impact on society should therefore be a good starting point to create some quantifiable focus on the issues at hand. It may present a good impetus to try and address the issues more effectively and lift the veil on what could potentially be one of the key drivers for many of the world’s biggest problems. And it may create some direction to all of the actors who may currently be pondering answers to key questions including the state of the “present situation”, the “dangers” that poses and what should be done about it (Lewin, 1946, p. 34). As the aforementioned and quoted Lee Kuan Yew, former Prime Minister of Singapore, notes in an interview discussing the reasons for East Asian economic success are varied and complex, even in the absence of any deep consideration of culture and ethnicity issues. “I think the World Bank has a very difficult job. It had to write up these very, very complex series of situations. But there are cultural factors which have been lightly touched over, which deserved more weightage. This would have made it a more complex study and of less universal application, but it would have made it more accurate.” (Zakaria, 1994). A paradox indeed, as may be noted when the actual financial reporting for fraud costs is examined in the following sections.

Micro impact of fraud

As a result of the non-quantification of corruption and fraud related expenses, these additional “costs to business” (Caiden, Dwivedi & Jabbra 2001a, as cited in Everett, Neu & Rahaman, 2007, p. 513) in any proposed investment or as part of the financial

management review of corporate performance, market efficiencies are eroded by virtue of reduced predictability (Donaldson, 1996 as cited in Davis & Ruhe, 2003, p. 276). Higher public investments are the result as private investors remain on the sidelines, and infrastructure that is established is of much lower quality (Schloss 1998, as cited in Everett, Neu & Rahaman, 2007, p. 514). Using generally accepted financial metrics, the performance of companies in terms of Earnings Before Interest, Tax and Amortization (EBITDA), return on assets and Price Earnings ratios (PE), are theoretically impacted by the same or higher amount to the estimated 5% - 7% of gross revenues reported by the ACFE (2012). This figure does not incorporate the below the line expenses related to maintaining corporate anti- fraud frameworks, employ competent professionals and install systems to mitigate, monitor and investigate. Two examples of fraud and its impact at a micro level as well as on financial reporting are HSBC and Standard Chartered Bank, which are both accused of manipulating financial reports to omit references to certain transactions. Both have set aside reserves to settle legal decisions and both have suffered in that their valuations have been downgraded. Some commentators now believe at least one of these financial institutions may not survive as a result (NZ Herald, 2012).

Legal compliance impact of fraud

Having established the nexus between fraud and financial reporting and the urgent need for its consideration as an urgent issue by highlighting the quantum of the sums involved, another important consideration is legal compliance in relation to financial reporting, as part of accounting's overall corporate governance responsibilities. Fraud must be monitored and reported on under increased legislative requirements, including the Sarbanes Oxley Act 2002 (SOX, 2002), (Bierstaker, 2009), also known as the "Company Accounting Reform and Investor Protection Act". This requires and involves the establishment of "vigorous anti-fraud programs", which includes the hiring of professionals, the establishment of systems and communication lines, and the actual investigation of specific fraud cases as they are noted. The CFO and CEO of publicly listed companies on the New York Stock Exchange are required to sign an attestation each year under s.404 of SOX, which includes a confirmation that compliant systems are

in place and operating effectively, including fraud mitigation and monitoring frameworks. Bierstaker (2009) notes this is becoming a significant issue as companies expand globally.

Apart from the aforementioned SOX requirements to establish anti-fraud monitoring systems and for NYSE listed companies to report on fraud, the Securities and Exchange Commission (SEC) is also involved in enforcement actions to ensure audits and attestations of financial reports detect fraudulent activities (Bonner, Palmrose & Young, 1998, as cited in Bierstaker, 2009). Similar reflections on the role of audit in detecting fraud are also contained in ISA 240, The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements, issued by the IAASB and issued in revision in 2006. Equivalent standards are extant in other jurisdictions globally, including in New Zealand where the standard is known as ISA 240 (NZ).

Fraud impact on financial reporting

In the context of the legal compliance responsibilities of auditors, Bonner, Palmrose and Young (1998) make a distinction between “commonly occurring frauds” and those involving fictitious transactions. They found that auditors are less likely to be sued if the fraud arises from fictitious transactions. The authors categorize different frauds according to accounting classes, for example, fixed asset manipulation as compared to revenue fraud. An example of revenue fraud is the acknowledged financial leakage experienced through telecommunications operator processing systems (KPMG, 2012). This is estimated by 20% of survey respondents to be up to 10% of gross revenues, and by 94% of the 137 telecoms executives surveyed to be on the increase and “significant” (KPMG, 2012). Telecoms leakage occurs between the time of a call and the actual invoicing and receipt of charges from the end customer and a significant percentage is due to fraud. Until the leakage percentage can be scientifically audited and proven, the gross operating revenues will not reflect the additional opportunity costs related to leakage, or how much is represented by the estimated large portion of fraud related losses. Putting a target percentage on fraud related costs in annual budgets and forecasts, measuring actual fraud impact against such targets, including executive Key

Performance Indicators (KPI), or even formally reporting the actual fraud costs, is not a common practice in accounting. The reflection of actual leakage would theoretically have to be done by means of journal adjustments to specific accounts, with a fraud cost allocation as a normal part of direct expenses above the line.

The implication is therefore that the material misstatement of financial reports globally caused by fraud is routinely unrecognized by the accounting profession, and that many auditor opinions may well be wrong in not recognizing the cost of fraud. Ultimately, such fraud as occurs thereby distorts capital markets by overstating common PE ratios of listed companies. Failure to detect fraud can thus impact on capital markets (Palmrose, 1987; Bonner *et al.*, 1998; Elliot, 2002; Public Company Accounting Oversight Board, 2004; Carpenter *et al.*, 2007 as cited in Bierstaker, 2009, p. 242.). Researching this issue appears to hold much potential to confirm the exact relationships between fraud and financial reporting.

The challenge of fraud in financial reporting research

Bonner, Palmrose & Young, (1998, p. 509) researched and created a complete taxonomy of fraudulent activities consisting of 12 general fraud categories. Their taxonomy emphasizes the challenges in accounting for and auditing of fraud related transactions. Essential challenges with fraud costs are how to establish the financial quantum based on the different categories that exist, and then to account for these at a corporate level, notwithstanding the earlier global extrapolation noted in this thesis. Fraud costs are a leakage that is usually not reflected on the traditional Statement of Profit and Loss since the leakage doesn't exist until it is identified. The fact that fraud is often only found after the fact, on average after 18 months of fraudulent activities (ACFE, 2012) means there is also a potential a mis-timing between the investigatory conclusions after fraud has been detected, including the financial quantum, and the relevant financial results against which the fraud costs should be offset, if the costs are in fact even reported on.

In fact, as the ACFE (2012) reported based on their global survey, echoing other consecutive global fraud surveys, the majority of respondents would rather not report or publicize fraudulent activities at their organizations. In many cases this means the

perpetrators are not prosecuted, and the financial impacts are not reflected in the financial reports thereby affecting accuracy and reliability in addition to the aforementioned predictability. Thus, as a consequence, it has a bearing on the preparation and attestation of true and fair financial accounts, especially as the common cut off for materiality used by auditors globally tends to be in the region of 3 – 5% of gross revenues.

Fraud and financial reporting in China

Echoing global findings, fraud costs in China are rising (Brody & Luo, 2009), and although no national total is given, the Chinese National Audit Office uncovered around US\$ 170 billion of fraud based on “misappropriated and misspent public funds (illegal practices include overstating the number of staff, setting up slush funds, misappropriating special funds, and collecting illegal fees)” (Pei, 2007, para. 5, as cited in Brody & Luo, 2009, p. 324). This figure is an estimate related to a 10 year period to 2005, but is likely to be much higher as the Chinese have been “an oppressed people who are suddenly given some autonomy over economic decision making.” and “The burgeoning economy in China means there are more opportunities to commit fraud” (Seah, as cited in Brody & Luo, 2009, p. 324).

Similarly, apart from some broad references to financial reporting including the possibility that executives in China “cook their books”, (Seah, as cited in Brody & Luo, 2009, p. 324), there are very few detailed articles on the nexus between fraud and financial reporting in China. This is in spite of the numerous accounting and audit topics that are researched in China, including auditor decision making, judgments and accounting errors, as studied by Au and Wong, (2000) and Chan, Lin and Mo, (2003), respectively. Au and Wong found that ethical reasoning in relation to the assessment and reporting of audit adjustments and the conflicts these engender is influenced by the level of Guanxi in relation to the audit client and its officers. They found that the higher the levels of ethical reasoning, the lower was the impact of Guanxi and the perceived manipulative influence on audit adjustments. This last aspect has been confirmed also by Steidlmeyer (1999) when discussing the need for external observers to keep in mind

that Guanxi driven practices are not to be considered corruption automatically. Such ethnic Chinese findings are echoed in the observations by Chariri (2006) when noting that Bapakism is not a pretext for bad behaviour, and that the Bapak figure has responsibilities that result from the position in society as the hierarchical patriarch of a Guanxi style social hierarchy.

Au and Wong's findings would be expected to find reflection in high levels of fraud in financial reporting, but paradoxically this does not appear to be addressed in academic research of this nature. Of the 41 articles that were originally found in relation to corruption, bribery and fraud in China based on keyword searches, a subsequent pre-selection based on abstracts reduced that number to 20 core articles. Au and Wong's findings might have been expected to lift the veil on this apparently under researched relationship, but it turned out that the majority of the final core 20 articles remained silent on the instrumentalities of perpetrating fraud and the impact on accounting and financial reporting. It may be that the accounting profession in China is only lately starting to recognize their role in fraud detection (Lin & Chen, (2004), as cited in Chen & Chan (2009), p. 112) or the fact that the problem has only recently been recognized (Liu, 2005, as cited in Chen & Chan, 2009, p.112). Chen and Chan (2009) rightly note that "The recent growth in the public accounting profession foretells the critical role that accountants and auditors will play in China's future economic progress." (p. 112). This includes research that will assist in resolving issues arising from the full transition to a "market driven economy" (Chen & Chan (2009).

A tantalizing glimpse into the connectivity between Confucianism and fraud is provided by Gao and Handley-Schachler (2010) where they note that the reason why Westerners tend to focus on the establishment of clear written terms and conditions in contracts as well as regulations, is for the purpose of mitigating against a naturally held human weakness for committing fraud (and theft). The authors proceed to note that the notions of "trust" and "contract" are diametrically opposed in the Confucian framework, since the philosophy has from its inception cautioned against a strict reliance on "laws, rules and contracts", based on the complexities of humans. "Wise officials" are thereby expected to address the ambiguities arising from varying interpretations towards key terminology, following the virtues prescribed (Wu Lun or the five tenets). Similar is

echoed by Lee Kuan Yew when he notes that “Governments will come, governments will go, but this endures. We start with self-reliance.” (Zakaria, 1994, p. 114) This may well provide an insight towards explaining why fraud by itself, and fraud in relation to financial reporting, are not well researched in China either, while fraud is in fact assessed to be increasing materially. A population that traditionally is expected to trust other individuals and especially officials will, in spite of the acknowledged erosion of public sector ethics as noted by China’s premier Wen Jiaobao, (cited in Plafker, 2007, p. 239), not necessarily wish to lift the veil of obscurity on this topic, including the non-reporting of the act (s) and their outcomes.

Hwang *et al* (2008, p. 508) report similar findings but different possible causes where they research the “impact of culture” on accounting professional’s behaviour in relation to whistleblowing within a “Chinese cultural setting”. One assumes the last reference to any particular location is in reality meant to state “Chinese ethnic setting”, highlighting the sometimes confused interpretation of the terms “Ethnic” and “Cultural”. Similar to earlier comments by Au and Wang (2002), who noted that levels of ethical decision making influence the impact of guanxi on auditor judgments, Hwang *et al* also find that the influence of Guanxi is affected by levels of morality amongst respondents. The “trust” factor is also noted, since respondents are also found not to wish to engage in whistle blowing due to fear of retaliation and media exposure.

Fraud and financial reporting in Indonesia

Of the 26 original articles selected for the thesis based on the search, a final 20 were selected based on their likely relevance after a review of their abstracts, further augmented by supporting articles where specific insights were needed to corroborate or support arguments. A list of the initial 26 articles identified is as per Appendix III. Irrespective of the few scholarly articles identified that deal with financial reporting issues (Askary, (2006), Chariri, (2006), Chariri (2009), Dima, David and Paiusan (2010), the connectivity between fraud and financial reporting is not clarified in any of the articles in relation to Indonesia.

Askary (2006) aimed to research the impact of culture on accounting professionalism in 12 countries, including Indonesia. In particular to Indonesia, the author found one of Gray's hypotheses, related to statutory control, to be negatively rejected, based on the fact that Indonesia showed low government interference in standard setting from government agencies, while it was also found to have high levels of compliance with those standards in place. In effect, Askary ranked the Indonesian accounting profession highly, which could lead to further hypotheses and research questions, including the suggestion that levels of fraud detection would be expected to be higher in Indonesia, since professionalism of auditors would affect the effectiveness of detection. Since none of the articles selected referred to fraud or explored fraud in relation to financial reporting it is not possible to comment on this hypothesis, except for Tabalujan (2001) who noted the 1997 Asian economic crash resulted in the biggest bank fraud in history and complete devastation in spite of the apparently "sound legislation", and due to the "systemic weaknesses in the corporate governance systems" that came to light (p. 32) It is possible that the subsequent efforts to improve corporate governance and professionalism in all strata of society led to Askary's findings in his studies in 2006, but without any academic research on the topic it would be hard to comment effectively.

An author that may provide some guidance towards a satisfactory explanation in this regard is Chariri (2009) who focused on the professionalism of auditors in their role of monitors of managerial behaviour in Indonesia. A specific emphasis of his research is the impact of cultural environments, and the desire to move away from the positive accounting paradigm that dominates financial reporting research. His findings may well have a bearing on the reason for the apparent paradox between high professionalism of auditors Askary found and the weaknesses in the corporate governance systems in practice found by Tabalujan. The cultural or ethnic environments in which financial reporting takes place may provide a lot of answers with regards to fraudulent manipulations, but it is a question that remains unanswered for now.

CHAPTER 6: CORRUPTION AND ACCOUNTING

“Bribery has poisoned the ethos of administrative, industrial, and social practices and has become a plague” (Wen Jiabao, cited in Plafker, 2007, p. 239).

So far it has been found that the majority of articles identified and selected were limited in connecting certain variables in the thesis question with each other, whilst bypassing the connectivity between all the variables aimed to be covered. It has also been observed that, in parallel with the relative paucity of articles linking culture, ethnicity and accounting, there are even fewer articles researching any direct connectivity between corruption and culture or those referring to the concept of ethnicity and ethnically shared values. It might therefore appear that there is no value in researching such connections as may exist. This perception however, ignores academic findings that corruption is possibly perceived differently between ethnic groups. It also ignores the reality out there which Wen Jiabao, currently sixth Premier of the State Council of the People's Republic of China, so well noted in his statement above. The connections to ethics, values and practices in all strata of society, as well as the pervasiveness and the gravity of bribery and corruption as if they are the fast moving “plague” which the world contended with and suffered under hundreds of years ago, are all accentuated by his careful choice of words.

Global financial impact of corruption

In contrast to global fraud costs, the financial impact of corruption and bribery on bottom lines is potentially much higher, and growing. Corruption is more rampant throughout the world now than ever before (Davis & Ruhe, 2003, p 275). A study by the US Department of Commerce indicates that the corrupt practices in international business are “widespread and growing” (Greenberger, 1995 as cited in Davis & Ruhe, 2003, p. 275), “most studies recognize that corruption is detrimental to society and business” (Wild *et al*, 2000, as cited in Davis & Ruhe, 2003, p. 275), and where corruption is highest, trust and confidence in democracy is lowest (Gallup International 2000 Millenium Survey as cited in Davis & Ruhe, 2003, p.275). It is acknowledged to be

closely connected to terrible economic costs (Rose-Ackerman, 1999; Goudie & Stasavage, 1997) as cited in Davis and Ruhe (2003, p. 276). Corruption causes the misallocation of resources affecting economic development, distortion of public policy, degrading of quality of business systems. Bribing by MNC can put domestic companies at a disadvantage (Davids, 1999, as cited in Davios & Ruhe, p. 276). Corruption risks political unrest and a cancellation of free market reforms (Elliott, 1994 as cited in Davis & Ruhe, 2003, p. 276). As the Worldbank, 1997, (cited in Davis & Ruhe, 2003, p.) noted, where corruption is predictable (presumably quantified and formally reported on) it harms investment less than where it is capricious (Worldbank, 1997).

National financial impact of corruption

Countries equally suffer from the non-recognition of corruption costs, since these are possibly not correctly reflected in the official GDP and Foreign Direct Investments (FDI) statistics based on the above three categories of treatment. Corruption is held to reduce FDI and growth (Mauro, 1995, Wei, 2000, Gupta *et al* 2002, as cited in Malagueno *et al* (2010, p. 373). Corruption reduces taxation revenues, reducing the effectiveness of governments (Tanzi & Davoodi, 1997, as cited in Malagueno *et al*, 2010, p. 374.) A major Asian and global economies such as India is publicly acknowledged to be held back economically due to its poor infrastructure, a problem that has been known for at least a decade (BBC, 2012). The flight of corrupt monies overseas is estimated at around US\$ 500 billion, from India to countries that are often ranked as perceived to be highly incorrupt (including Singapore, New Zealand and Switzerland). This estimate by the Indian equivalent of the Serious Fraud Office (Business Day, 2012) is apparently responsible for the higher of public spending in infrastructure as a result of such high levels of corruption. It has meant that India loses 33% of its annual food production to rot and spoilage as food cannot be adequately stored or transported (BBC, 2012). The equivalent food supply that could be saved through adequate infrastructure would be enough to feed all of India's population and allow the country to export, and address one of its greatest social challenges.

The list of evidence is growing and points towards corruption costs to society being up to 60% of national GDPs, including both corruption and fraud, and possibly up to 50% for corruption costs exclusively. A similar comment as made in the context of fraud is applicable to corruption and bribery costs. The responsibility of accountants, in accounting for business related expenses, would indicate a necessity to reflect these costs in financial reports in compliance with the matching principle of accounting, ensuring all relevant expenses are matched with their corresponding revenues. The question as to how and whether this is the case will be explored further in this section.

Micro impact of corruption

Rose-Ackerman (1999) notes corruption rates at micro levels in various countries globally, including some Asian countries. These have historically suffered corruption and bribery related leakage at levels between 20 – 40% of total project costs. From interviewing private contractors involved with the construction of Suvarnabhumi Airport in Bangkok, their payment of procurement bribery that needed to be factored into contract proposals was in their estimate around 25% (Private discussions, 2007). The World Bank reported that, based on research in Indonesia, the leakage percentage caused by corruption was up to 30% of annual turnover for multinational corporations operating in Indonesia, by virtue of the financial incentives needed to obtain contracts in both the public and private sector . A Worldbank report recently noted that, from the US\$ 72 billion they disbursed annually to the poorest countries globally, around US\$ 20 – 40 billion is squandered through fraud and corruption (Worldbank, 2012). This constitutes between 28 – 56% of all disbursements annually. Significantly, the Worldbank executives quoted refer to fraud and corruption interchangeably, since much of the fraud perpetrated by political figures is equally corruption based on the official positions held by the perpetrators. The labelling and definition of fraud and corruption has been investigated in the earlier thesis sections focussing on defining key terms.

Legal compliance impact of corruption

Corruption and bribery are not allowed under global acts and regulations, including the USA Foreign Corrupt Practices Act (FCPA, 1977), the United Kingdom Anti-Bribery Act (2011), the PRC Criminal Law (2011) and the New Zealand Crimes Act (1961). Of these, the Foreign Corrupt Practices Act (1977) is considered the most pervasive and has become the “de facto international standard” (Bierstaker, 2009, p. 243). These acts prescribe penalties and sanctions that are sizeable in terms of jail terms and fines, and directly affect the organizations and officers that are found guilty. Apart from the financial costs, there are also personal risks to senior officers of companies, including the Chief Financial Officer. Under Sarbanes Oxley Act 2002 (SOX, 2002), the CFO and CEO have to attest to the quality of their internal control systems (S. 404), which includes the need to have robust anti-fraud and corruption systems in place.

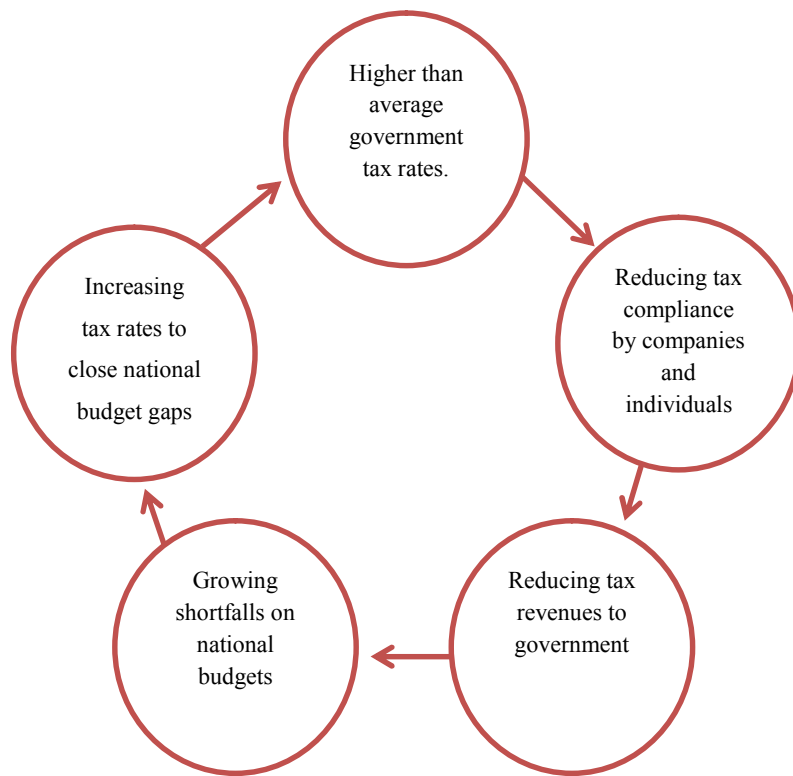
As noted in his article, compliance with the act has become a significant challenge for companies with global operations, and applies to “officers, directors, employees or agents” of companies, including accountants. Failure to recognize the risks of and mitigate against corruption, when signing the attestations required under SOX by any CFO, carries penalties including incarceration. This establishes a further causal link between corruption, bribery, fraud and financial reporting.

Corruption impact on national accounting

Corruption is found to act as a tax on direct foreign investment (Tanzi & Davoodi 1997, Lambsdorff, 2001, as cited in Davis & Ruhe 2003, p.276). Corruption also perversely drives up official tax rates for individuals and companies. The reasons for this are hypothesized to be twofold. On the one hand, corruption is not formally accounted for as noted previously, and needs to therefore be offset or deducted from black revenues using either a second set of accounting ledgers, or completely without such records. This distorts total reported corporate revenues and profits negatively, resulting in lower official profits on which government taxes can be levied. On the other hand, because few companies or individuals are likely wish to pay any formal taxes in addition to the illegal and alternative “taxes” imposed by corruption, as this would constitute an

effective double taxation regime. Since corrupt actors perceive corruption tax as more effective than using services provided by the formal state administration actors and since the corruption rate is estimated at around 30 – 50% of any business transaction, as noted previously (Rose-Ackermann, 1999), it is clear that few companies or individuals would even be able to afford the formal taxes mandated by government. As a result of the consequently lower official tax revenues and shrinking base of official tax payers, governments are often inclined to increase formal tax rates, both corporate (CIT) and personal (PIT). Herein lies the challenge which presents itself as a vicious circle whereby:

Figure 4 – Spiralling taxation rates resulting from corruption



Since governments are reliant on tax revenues to ensure the provision of social services, and since corruption causes a loss of government revenues (Fjeldstad & Tungodden, 2003, as cited in Everett, Neu & Rahaman, 2007, p. 513), it is not surprising that the tax rates remain stubbornly high, creating yet more incentive for law abiding tax payers to exit and join the illegal taxation system. Perversely, it is well known that stable and flourishing pluralistic societies need sizeable and robust middle classes who remain law abiding and follow laws and honour their tax obligations. An absence of a middle class

of any significance is also normally a sign of a deteriorating quality of democracy and democratic processes. This is the reason why corruption risks political unrest and a cancellation of free market reforms (Elliott, 1994 as cited in Davis & Ruhe, 2003, p. 276), simply because national accounts cannot provide any confidence that such free market reforms in fact result in positive results.

Corruption impact on financial reporting

It has previously been noted that the individual variables in the thesis question tend to be much more reported on academically than the connectivity amongst them. In isolating the variables of “corruption” as related to “financial reporting” it was hoped to find better results from the literature. As Malagueno *et al* (2010) noted, there is a substantial body of literature on both corruption and the value of quality accounting and auditing as separate research topics. But there is substantially less empirical research to confirm any relationship between the two. For this reason the authors wished to better understand the relationship between accounting and auditing quality and perceived levels of corruption. Empirically proven relationships are challenging to confirm, in spite of specific research by Hall and Yago (2000) and others cited (*Ibid*, p.373). It is therefore concluded that there is little cross country or even specific country focussed research, but that there is a significant correlation from the limited studies available to date. One such interesting finding embedded in Malagueno *et al* is a 2002 study by Kimbro. It found empirical links between the number of accountants per capita in a country and the level of corruption (p. 375). So it is possible that rather than corruption affecting financial reporting as the title of this section suggests, the reverse may be more accurate. And there may be a correlation but not a direct connection as will be investigated in the specific country sections for China and Indonesia.

The following section attempts to fill this vacuum by reviewing what some authors have noted in relation to the specifics of the possible relationship, without focussing specifically on researching such (lack of) connections. In other words, the observations have been extracted as a by- product of research rather than the initial research objective or research question. At a company level, there are a variety of impacts on

financial reporting resulting from the manner in which corruption and bribery are accounted for or excluded from official accounting records. The different approaches to corruption included at least four defined and distinct methods, which have an impact on accounting and reporting, as well as fifth, which does not address a direct connection but is apparently related.

1. Misclassification of corruption related expenses as routine expenses, for example agency and consulting fees, entertainment, training or “gifts” (Watson, 2003, as cited in Bierstaker, 2009, p. 242.). These would result in possible misstatement of financial reports in certain expense classifications.
2. Non-reporting, whereby the corruption expenses remain off the official books and are reflected and offset against parallel revenues that remain on hidden sets of accounts (Private meetings and records, 2012). This type of non-reported corruption would result in distortion of official financial records by virtue of maintaining multiple variable versions of such records. Such “ghost” accounts are only possible where there are weak internal accounting controls, a factor which most corruption researchers acknowledge is important to address to reduce corruption. For example, Leiken, 1997 (as cited in Malagueno *et al* 2010, p. 376) notes that corruption in development banks could be reduced through “effective accounting systems, adequate internal controls and timely audits”. Sun (1999), as cited in Malagueno *et al* (2010) p. 375, notes that, in the context of China, improved accounting practices have already lowered corruption there.
3. Over or understatement of gross revenues through money laundering of proceeds from corruption related activities, to misstate the GP and NP artificially. The examples of the HSBC and Standard Chartered Bank (NZ Herald, 2012) have been noted previously, as have the potential legal fines that have been reserved for, which are related to point 4 below. Either over or under statements of gross revenues, gross profits or the resulting net profits will have an impact on national tax revenues. If revenues are overstated through money laundering practices so endemic globally, then stakeholders do not have a reliable basis from which to value their investments.

4. Understatement of contingent liabilities and risks resulting from legal infractions, potential loss of licenses and so forth. A similar end result as per point 3 may be noted, related to the lack of reliable bases from which to value investments and returns.
5. No clearly defined connections but an apparent correlation between accounting and corruption which remains to date not well defined or proven.

Challenges in the financial reporting for corruption

The financial accounting for, and the fair reporting of, underlying transactions is traditionally the responsibility of accountants. In combination with the attestation of those financial recordings and reports by auditors, this firmly establishes the connectivity between the accounting profession and corruption. It effectively puts the profession at the coalface of corruption. Accountants following generally accepted accounting and auditing standards seek to make financial information transparent (Malagueno *et al*, 2010) thereby mitigating against inappropriate acts that are either illegal or unethical. On the other hand, corruption, by virtue of its illegal and unethical nature, requires the hiding of the evidence, the under-recording or non-reporting of the underlying transactions. It therefore appears reasonable to hypothesize that, if corruption is perceived differently between different ethnic groups, and between accountants from different ethnic backgrounds, that the financial accounting and auditing of those reports will also be affected, impacting on transparency.

According to Bierstaker (2009), professional accountants in the Asia-Pacific do not perceive bribes as seriously as their colleagues elsewhere. Bierstaker's stated intent and research question appears to be the examination of attitudes to fraud across different cultures, and it has already been noted that researchers have in the past confused the concepts of fraud and bribery. The more important observation is the author's findings which note that "A great deal of future research is needed to examine the effects of culture on the critical elements of managements' antifraud programs and controls that may be most effective in combating corruption, including the whistle-blower hotline, internal audit, surprise audits, management review of internal controls, rewards for

whistle-blowers, and mandatory job rotation.”(p. 241). It appears a predominant portion of what would be considered an organization’s corporate governance framework is subject to the influences of cultural values and ethnicity. The critical nature of this finding is that those who are responsible for many of the elements listed are accountants, and that Chief Financial Officers (CFOs) globally have experienced greater pressures to act unethically in the domain of financial reporting (CGMA, 2012) compared to prior periods. This shows a potential causality between the underlying unethical transactions, including bribery and corruption, and the subsequent moral challenges faced by accounting professionals to record those transactions in a transparent manner. Such moral challenges might arise by virtue of the restricted confines of legislation and social practices and the prescriptions of the accounting and auditing standards. No ethnic distinction was discernible from the CGMA report, which purported to have conducted the research in 80 countries. Based on the number of countries one might assume a good ethnic diversity in the population of responding accountants, but no light is shed on this aspect. Professional accounting bodies, including the Institute of Chartered Accountants of England and Wales (ICAEW, 2002, as cited in Everett, Neu & Rahaman, 2007, p. 514), note that accountants must be at the forefront of the fight against corruption, especially in the face of the increasing pressures and the apparent propensity to do exactly the opposite. One of the first tasks of accountants as gatekeepers of the financial records may well be to ensure that all relevant corruption related transactions are in fact reflected in the financial reports they prepare, and that any suspicious transactions are questioned as to their validity, legal compliance and impact on enterprise risk management. The way that accountants perceive corruption is therefore highly relevant as this will impact on their judgment related to their reporting responsibilities.

Perceptions of corruption

Financial scandals in South Korea are perceived as “smart financial moves rather than unethical corrupt acts” (Albrecht *et al*, 2010 as cited in Bierstaker, 2009 p. 3). Accountants from the Asia Pacific region do not see bribes as seriously as their colleagues elsewhere in the world (Bierstaker, 2009) and East Asians hold a different

world view based on their assessment of causality, individuality, applicability of rules, and relativism (Bierstaker, 2009). This leads to the perception that bribery and corruption are common practice, and punishing those involved simply a case of bad luck (Zhang 2001, as cited in Brody & Luo, 2009, p. 318). As simple a social activity as relationship building is perceived appropriate in China, whereas western business people perceive it to be corruption in the form of *guanxi*, and therefore not tolerable (Brody & Luo, 2009, p. 321.). “What is thought of as a gift in Japan could be construed as a bribe in the USA (Watson, 2003, as cited in Bierstaker, 2009, p. 241). These references, which are extracted from the articles reviewed, therefore raise the tantalizing question exactly how local or ethnic values affect corruption.

The accommodation of ethnic values in globalization

The variety of beliefs amongst different ethnicities and groups is likely to be a highly influential factor on corruption and accounting. Regardless of the limited evidence of research that has been done, it deserves to be studied in that context for one other substantial reason, which is not directly linked to the responsibilities of accountants. “International trade is growing rapidly, for both developing and developed countries (World Bank Group, 2001), and economies of countries such as the USA and China have become increasingly intertwined” (Atkinson, 2004, as cited in Bierstaker, 2009, p. 241). The growth of global trade, the increasing propensity of companies to establish international operations, to internationalize their operations by vertical or horizontal acquisitions or establishments means that multinational corporations must carefully consider how to manage their affairs internationally. Many managerial principles are found to be influenced by the cultural context in which they are applied (Earley, 1989; Hofstede, 1992, as cited in Bierstaker, 2009, p. 241). Alternative cross-ethnic studies propose that individuals from other ethnic backgrounds have different preferences for management practices and control systems (Birnberg & Snodgrass 1988; Chan *et al.* 2001 as cited in Chan, Lin & Mo, 2003, p. 282). Many also believe corruption depends on the observer, since other factors (cultural) affect the reality of the individual. It is therefore more appropriate to discuss “perceptions of corruption” than actual (Davis & Ruhe, 2003). These have also identified that “different error patterns are found in

companies with different management practices and accounting control systems” (Wallace & Kreutzfeldt, 1995 as cited in Chan, Lin & Mo, 2003, p. 282).

In parallel, Davis and Ruhe (2007) note that globalization is driving the requirement for executives to more accurately predict likely corruption in different countries. A significant portion of any country’s risk, trade flow with the USA (or other countries globally), foreign investment, and per capita income can be explained by perceived corruption. The ability to predict corruption has a direct impact on the bottom line of any operation internationally. It affects the financial attractiveness of any investment in terms of Returns on Investment (ROI) and hidden costs of doing business. Costs of doing business include potential litigation due to legal infringements, the pure impact of leakage in the form of bribery related cash-flows and the time and effort that requires to be invested from management to solve or settle issues arising from corruption and bribery. Any accountant engaged in the preparation of cash-flow forecasts, investment proposals incorporating Net Present Value (NPV) determinations, budgets, and financial benchmark studies would necessarily need to be aware of and consider the cost of corruption and bribery in their equations and calculations. Ignoring the impact of these hidden costs would affect the comprehensiveness of any picture presented to internal decision makers, including the board of directors. The fact that accountants are not generally considered to be very good at considering non-financial factors adds weight to this point. “While auditors are educated and normally well trained in the technical skills required to audit financial statements, they generally lack comparable formal training in the evaluation of nonfinancial attributes that affect the control environment of an enterprise (Chan, Lin & Mo, 2003, p. 293). A corrupt environment can definitely be construed as a non-financial attribute that affects the organization’s control environment. Not recognizing it for its impact makes it “easy to get lost in the advantages of doing business in China and overlook the complications” (Brody & Luo, 2009, p. 317). To avoid a “nasty headache”, they note it is imperative to comprehend the philosophical bases of Chinese society and the differences between it and its Western counterparts. It is clear that accountants cannot ignore corruption when considering any steps towards globalizing their corporate operations.

Corruption and financial reporting in China

In contrast to the global estimates referred to earlier, costs of corruption in China between 1995 and 1998 are estimated to be to be between 13.2 and 16.8 per cent of China's GDP (Hu (2001), as cited in Malagueno *et al*, 2010, p. 374). This figure is materially lower than the global estimate earlier reported in this thesis, but it should be borne in mind that the estimate relates to one dating back to 1998, when China was still at the initial stages of market reform. In line with comments elsewhere regarding the rampant and growing nature of corruption, the figure for China is likely to have increased dramatically after 1998. This is not reflected in the number of articles identified for this thesis which addressed the issue. Out of the 41 articles originally selected, nine addressed corruption from a variety of disciplinary angles. Of these the majority were from social or political science disciplines, with a few rooted in ethics. Not even one article identified was from any recognized or even lower tier accounting journal.

Corrupt accounting and financial reporting not only imposes costs on the Chinese economy. Between 2007 and 2012, the total cost of fraudulent and corrupt financial reporting by Chinese companies listed on the New York Stock Exchange is estimated to be around US\$ 35 billion, which was borne by United States and other global investors. "Just as stinky fish makes a pot of fish soup stinky" such fraudulent listed companies caused many legitimate publicly listed companies to suffer unnecessary losses (Muddy Waters, 2012). Conversely, the actual estimation of such financial impacts creates the possibility of and drives regulatory and executive responses, confirming the need for accounting to be involved in the "fight against corruption" (Everett, Neu & Rahaman, 2007). As Bierstaker (2009) noted, a "great deal of future research is needed" since there appears to be none. This section has been further divided into individual segments dealing with Guanxi in relation to corruption and accounting in China to emphasize the importance of considering an obviously neglected subject.

Chen and Chan (2009) note that many accountancy issues arising in China are "interesting and deserve attention because they exemplify some intriguing characteristics of an emerging profession and economy that differ from their well-developed counterparts in the West." Their paper is replete with cultural aspects that

have been researched or are proposed to be researched in relation to accounting, including culture's implications for China's accounting standard harmonization (p. 107), culture's impact on accounting education and programs (p. 104), and culture's place in accounting history (p. 104). The authors finish with the exhortation that an "understanding of China's history, culture, and business environment can help researchers identify meaningful research projects that will contribute to continued progress and growth in the accounting profession and help to resolve the problems that arise from the dramatic changes in China's economy." (p. 119) Apart from the aforementioned reasons of globalization and growing awareness of the negative implications, the authors thereby add further weight to the argument why studying ethnic diversity in relation to these factors is of relevance. "Progress" and the alleviation of problems resulting from rapid progress in China are sensible objectives to avoid major internal stresses and strife in China. This can be noted by outside observers in the corruption related case of the former mayor of Dalian, Bo Xi Lai, and the trial and guilty verdict in the case of his wife, Bogu Kailai, who killed a western business man in a falling out in a "business" relationship based on corruption and money laundering. It is now acknowledged that the case and its aftermath has severely disturbed the PRC Communist Party of China (CPC), where Bo Xi Lai held a senior position and status as CPC Central Committee Political Bureau and party chief of Chongqing municipality. It is also assumed that substantial delays in the commencement of the 18th National Congress, which is held to announce, amongst others, major changes in positions held in the CPC, were due to the corruption related issues. Rationally speaking, no one in the world has ever benefitted from a dysfunctional China exporting its troubles to the world around it. Especially if China's top leader chairing the aforementioned National Congress considers the country is beset by a corruption "plague" that undermines the core of its administration and leadership and which could lead to a weakening of its controls over vital strategic functions such as the armed forces, as some observers believe may be the case. As the CPC noted, the "entire Party must fully realize the perennial, complex and arduous nature of the anti-corruption fight and give fighting corruption and building a clean government a more prominent place on its agenda in

order to wage a resolute battle against corruption, leaving no room for corrupt figures to hide within the Party.” (China Daily, 2012)

Cross-ethnic research in accounting can contribute towards the achievement of such objectives by providing greater understanding of the depth, richness, and complexity of cultural and acculturational similarities and differences between and across nations. In undertaking such research, it would achieve the goals of complementing quantified dimensional-based cultural measures with relevant historical, sociological, and psychological literature (Chen & Chan, p. 119). A caveat applies here, since treating all of Chinese ethnicities as one “culture” may confound the objective of achieving clarity in the context of understanding corruption, bribery, fraud and financial reporting. This has already been noted in various sections exploring the existence of ethnic groups within the overall Chinese ethnicity, and the observation that cultural norms and practices are the result of layers of successive influences.

Corruption and accounting in Indonesia

Little is found in the way of research connecting corruption, culture and accounting in Indonesia. Out of the 25 articles originally selected, only three referred to or addressed corruption. Not one of these articles were in the academic accounting or business domain, and echoing the search findings for China, they predominantly emanated from social science disciplines.

This is a surprising result, considering that Indonesia, similar to China, ranks very poorly on a variety of international indices (Schutte, 2012). The same author notes a slow improvement from the low rankings from 2002 onwards with much government and institutional attention on progress in Indonesia, which is now considered a “success story” (Schutte, 2012, p. 39) and “good enough” (Doig, 2012, as cited in Schutte, 2012). Corruption related research in Indonesia tends to focus on other facets, including the role and effectiveness of anti-corruption agencies (Schutte, 2012). This particular article by Schutte does not mention “culture” or ethnicity, which is all the more surprising because the article emphasizes that Indonesia is held out to be an unusual test case for the establishment of a successful anti-corruption agency. The question whether the

levels of success enjoyed to date are affected by ethnic values, for example Javanese, is therefore not explored. Similar to the focus of researchers globally, there is some research on the linkage between culture and accounting.

Financial reporting is researched and reported on separately in the context of culture (Chariri, 2006 and 2009) variables, in terms of connectivity and influences from Islam (Dima, David & Paiusan (2010) as well as government accounting and reform (Marwata, 2006) and accounting standards (Rosser 1999, Saudaragan & Diga, 1998). The sole specific article on corruption, already referred to in detail in other sections of the thesis, does not touch on the topic of financial reporting (Schutte, 2012). Yet Malagueno *et al* (2010) found the aforementioned relationship between auditing and accounting quality and levels of perceived corruption. Based on Indonesia's perceived corruption rankings, which are consistently in the lower quartiles of global rankings such as the Corruption Perception Index (CPI) that is issued by anti corruption NGO Transparency International it is therefore surprising to not find any discussions on this relationship in the Indonesian context.

Since auditor professionalism has already been reported on in the Fraud section, and since it was identified that professionalism and the legal and regulatory frameworks were adhered to (Askary, 2006), while paradoxically resulting in major corporate disasters during the 1997 crisis (Tabalujan, 2001), the exploration of the connection between corruption and financial reporting could hold much value by way of the answers that remain undiscovered in Indonesia.

CHAPTER 7: A FOCUS ON GUANXI

Guanxi has been mentioned and referred to on a number of occasions in this thesis and provides a logical case study and focus, as a result of the academic coverage by business literature so far. It is therefore a useful example of how a cultural norm can be connected effectively to the other thesis variables, and this will be explored in this chapter dedicated to Guanxi.

Figure 5: Guanxi in Supplier Relationships



Source: Cheng, Yip and Yeung, 2012

Corruption may be the result of the erosion of public trust in institutions instead of the reverse noted by Davis and Ruhe (2003). Analogous to Figure 5 a citizen's perceived supply risk in social services from public administration and agencies causes a greater reliance on personal Guanxi, although in some cases, personal Guanxi will be applied to improve the performance of the institutional supplier, as the figure implies. In contrast to the philosophical explanation resulting from Confucianism discussed earlier, some therefore hold guanxi to be the result of low levels of trust in official institutions (Private discussions, Dr Xiaoming Huang, 2012). Where transparency of public administration is in doubt and fairness and equity are not guaranteed, trust levels drop. One option is for citizens to resort to reliance on informal systems and frameworks that compensate for the lack of trust held in formal institutions. "An underdeveloped legal framework makes private company executives more dependent on guanxi" (Xin & Pearce, 1996, p. 1641) Such personal relationships are deemed to be especially important in countries where legal and administrative environments are considered

weak (Redding, 1990, Zucker, 1986, as cited in Xin & Pearce, 1996, p. 1641). As Lee Kuan Yew notes (Zakaria, 1994), governments come and go, but there is certainty in family and clan ties.

Guanxi and the powerful relationships arising from guanxi, are creating a dilemma for the Chinese Government in relation to dealing with corruption and are creating ever increasing complexity. This dilemma and resulting reluctance to tackle fraud may well affect the level of reporting as noted earlier by Hwang *et al* (2008) and may arise from the increasing moral vacuum that is developing at the higher levels of society. Bo Xi Lai, earlier referred to, was also found to have acted immorally by the CPC, in effect acknowledging this moral vacuum that may be expanding. "Bo had or maintained improper sexual relationships with a number of women." Part of the reason why this is so may be that "Anti-corruption drives have become intertwined" with power struggles between leadership factions, as reported by Barnathan, (1995) and Engardio (1995), as cited in Steidlmeyer (1999). p. 125). Anti-corruption efforts are apparently no longer designed to combat corruption and increase moral standards but have instead become an internecine fight over power and the elevation of personal position in the CPC. A substantial reason why, according to observers, the aforementioned 18th Party Conference was delayed, as the vacuum created by Bo Xi Lai's removal was creating unexpected moves on the chessboard of politics within the CPC. Barnathan (1995) referred to an earlier clamp down in 1995 when Premier Jiang initiated an anti-corruption drive in the CPC which some commentators believed was initiated to consolidate the "iron triangle of interests" which enriches government and CPC functionaries at the expense of the Chinese population (Naughton, 2002, p. 10).

Guanxi and accounting judgements

There is also a significant relationship between the quality of accounting judgements and the levels of individual ethical reasoning where it involved significant ethnic or cultural influences, including guanxi. A number of authors have focussed on exploring the linkages with cultural norms by focusing on guanxi, ethical reasoning and accounting. Such authors include Au and Wong (2000), Chan, Lin and Mo (2003), Hua *et*

al (2010) who researched auditor judgements, and others who looked at accounting judgements and estimates (Chand, Cummings & Patel, 2012). It was found that cognitive moral processes are not the sole determinant in predicting and evaluating levels of professional judgment, and other externalities should also be explored, notwithstanding earlier references to authors that found ethical reasoning a significant influencer on Guanxi driven behaviour, including Au & Wong (2002) themselves. "Individual and situational variables [can] interact with the cognitive components to determine how an individual is likely to behave in response to an ethical dilemma" (Trevino, 1986, p. 602 as cited in Au & Wong, 2002, p. 88). Further, auditors' ethical behavior in the Chinese economy is a major issue for accountants and Chinese regulators (Skousen *et al.*, 1990, as cited in Gul, Ng & Tong, 2003, p. 380). These last authors did not include Guanxi as a variable to be tested in their empirical study of auditor's ethical behaviour and influencers, in contrast to the predominant approach to include Guanxi as a definitive factor in assessing and evaluating auditor's behaviour. The authors instead used the "economics of ethical compliance model" to research the impact and association between ethical reasoning, perceived risk of detection, penalties and ethics in an audit conflict context. Gul et al, study is a purely quantitative study with empirical results, which would find Guanxi a difficult variable to measure, since it involves the measurement of relationships. The results showed both detection and levels of ethical reasoning are significant predictors of ethical behaviour (or lack thereof). These were not altogether surprising results which appear to suffer due to the lack of consideration of qualitative factors.

When the virtual balance sheet debits and credits that are so much part of guanxi become tangible in the form of bribery, these corrupt informal levies drive out and replace government regulated taxes, in an analogy to Gresham's Law that bad money drives out good, based on the challenges of establishing the value of social goods and their transaction costs (refer Figure 4). Steidlmeier (1999) is however quite emphatic that there is a fine line between bribery and Guanxi. Chinese "are well aware of the differences", whereas for many foreigners, drawing the line is one of the most difficult lessons to learn (p. 1999). Regardless of this Chinese acknowledgement of the "fine line" there is no doubt that corruption and bribery are increasing, as noted earlier by

reference to the Bo Xi Lai corruption case. The consequent pressures on hiding the corruption amounts in unusual expense accounts or in secondary sets of books are therefore also likely to be mounting. The reference to formal “frauducational” institutions has been made previously, as it appears a new education business has founded on the demand to know exactly how to account for the transactions resulting from corruption and fraud. This is in contrast to the venerated thousands of years of historical accounting developments in China, as noted by Aiken and Lu (1993 b and 1998), cited in Gao & Handley-Schachler (2010), p. 51. In fact, according to Fu (1971), *Ibid*, the “earliest reference to accounting in China is to Yu of the Hsia dynasty (2206 BC–1766 BC) who coined the Chinese term for accounting which is in use even today (1971: 40). Additionally, “During the Shang dynasty (1500–1000 BC), the first form of accounting emerged (Aiken and Lu, 1993b)”.

The accounting challenges inherent in estimating, valuing and recording bribery and corruption, as discussed, result in the belief by the parties to a corrupt act that the transaction costs from using *guanxi* are lower than those from formal government channels, making comparison difficult. There are inherent limits to the level of bribes that can be requested as an informal transaction tax. This has been noted in Malaysia, where ethnic Chinese businessmen refused to invest in economic projects due to the perceived inequity in the rising scale of bribes needed to obtain necessary business permits (Private discussions, 2007).

Guanxi as insurance

A major thread in the discussions on China that are in the various sections of this chapter has been the references and elucidations on *Guanxi* and philosophical frameworks that form the bases for Chinese ethnic culture, including Confucianism. An expansion on *guanxi* as a result of a lack of trust in society rather than as an offshoot of Confucianism has been remarked upon by a few authors, including Xin and Pearce (1996) and Zakaria (1994). Steidlmeier (1999) refers to the inextricable link between *Guanxi* and trust when he notes that *Guanxi* is about the “trust, caring, reciprocity and commitment between parties”. There is historic evidence that official positions and systems were subject to arbitrary decisions made by those in higher authority, including formerly the emperor and nowadays the Communist Party. Falling from grace

was and is debilitating and often fatal, not only for the official concerned, but also the immediate family. This reinforces the need for rigorous personal and family ties reflected in the five cardinal Confucian relationships, to be maintained as insurance against the arbitrary nature of life, regardless of the severity of the challenges such as laws, regulations and societal stigmata to break those ties. In fact, Gao and Handley-Schachler (2010) note that Communism has had a wrenching experience on traditional Confucian beliefs, including the five cardinal relationships (p. 64). The “wrenching contradictions” between the two philosophies are likely to have created an exacerbated reliance on Guanxi, creating increased pressure on gifts to transgress the fine boundary with bribery. It is not inconceivable that the aforementioned rich historical evolution in Chinese accounting has found a sorry end in “Frauducation” due to the increasing pressures to maintain Guanxi.

CHAPTER 8: DISCUSSION AND CONCLUSION

It is clear that academic business related research has not evaluated or determined the connections between corruption, bribery and fraud in financial and accounting reporting in China and Indonesia to any great degree. The subject matter in its entirety is not deeply researched or reported on. A minority of the articles found and selected for the meta-analysis took the effort to investigate cultural norms in more detail in relation to the ecological influences that underlie and support societal values, in order to address or acknowledge the impact of ethnicity and culture. A more complex and interesting picture emerged in those articles that did. It must be noted that the use of quantitative models to evaluate culture was too tempting for some accounting and business focused academics, thereby closing any avenues to explore the underlying riches and meaning of ethnicity and cultural values. Overall it is apparent that authors have generally not accommodated distinctive or particular cultural values or ethnicity to research corruption, bribery and fraud in financial and accounting reporting.

A major finding and possible reason for this is that definitions of the variables are not consistently and universally stated or accepted. As a result, the measurement, analysis and even treatment of corruption, fraud, bribery and culture will be variable and unfocused. One cannot research or address an issue when the definition or the symptoms are not agreed on, especially where the terms were confused with each other, as some researchers discussed in this thesis have done. As a result, the “Five Blind Men” syndrome is repeatedly identified throughout this thesis. In relation to accounting and financial reporting this is more urgent, since these involve the processes of judgment and quantification. Both of these are basic and essential accounting activities. They are clearly challenging if there is no general agreement on what the underlying concepts mean. By leaving corruption, bribery and fraud unreported or unstated in terms of financial quantum, due to the ambiguity of terms used, these are therefore left untreated and can grow in the shadows and out of sight, as if blindness has afflicted the accounting profession. It is not inconceivable this is why academic

research has acknowledged that corruption, bribery and fraud are growing so dramatically if they are left to fester in dark corners, and out of sight.

A second reason for the notable absence of references to ethnicity in academic research papers selected for this thesis in China and Indonesia, is that there appears to be an overall sensitivity in society and politics to address the topic. Political discourse and policy may therefore be affecting the academic world in terms of their ability or interest to engage with the subject.

An additional weakness that arises from this is that discussion and debate over ethnicity, corruption, fraud and bribery may become confused and emotional without any firm agreed standard definition. This was found especially in discussions over cultural concepts and practices such as Guanxi in China, which are misinterpreted as bribery driven social constructs by the majority of researchers, both in and outside China. Without defining the terms and what the cultural concepts mean, it is again difficult to gain input and assistance from accountants in relation thereto. Public media are replete with confusing messages, and the academic research is generally not assisting, which creates an ever larger chasm of misunderstanding between different cultural norms and differently ethnically grounded observers.

This thesis has also identified that to understand culture it appears to be necessary to investigate deeply in all aspects and domains, including environment, language, history, sociology and genealogy to first confirm the values and common patterns observed, and to clarify any unusually predominant values. This appears to be the only thorough manner in which to evaluate and conclude sensibly on any cultural norms, practices and behaviours, although even with the best efforts, misunderstandings or misinterpretations may arise. In the end it is the on-going and perpetual practice of ethnic and cultural investigation which may hold out the best results. This observation may lead to conclusions as to the optimal way to conduct future research, including the method of Action Research.

In contrast, on the basis of the few articles that provided a complete view of all variables researched, the conclusions more or less confirmed that global attitudes towards corruption and fraud are not ethnically much different. These articles also identified

that, whereas the outward cultural practices might appear to be very different and even alien to the observer, the underlying beliefs, driven by long standing value frameworks, are in fact very much aligned universally. This observation should be read with caution, since it applies at least where it concerns matters such as corruption and fraud, and with the caveat that this conclusion is based on a limited number of articles.

Further research is needed to establish specifically how to link corruption, fraud and bribery to accounting via the connecting bridge of ethnicity, in China and Indonesia. In an increasingly quantitative world, where bottom lines are often the only accepted standard, it has been noted that the quantum of financial impact is material globally and growing. Notwithstanding the general desire to put a figure on everything, it is suggested that effective future research be conducted on the basis of both qualitative and quantitative methods, to maintain scientific rigour. This would also allow for the assessment of differences between cultural norms, beliefs and practices, and how these drive accountants' attitudes and behaviour in relation to corruption, fraud and bribery.

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APPENDIX I – PERSONAL MOTIVATION STATEMENT

"The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man" (Shaw, 1905)

As a chartered accountant and certified auditor I continue to reflect on the substantial opportunity costs borne personally, which I can estimate in the millions of dollars, based on the easy money on offer via the numerous “reasonable” schemes I have been proposed to partake in. This sum includes the opportunity costs incurred in following the apparently “unreasonable” ethical path professionally, both in enforced career breaks, personal reputation, lost repatriation costs, and substantial legal fees running in the hundreds of thousands of dollars. Not to mention the mental agony I put my family members through when I chose to report an “unreasonable” reality which was not appreciated by the end users of such reports, usually boards of directors or shareholders.

In the end it became personally imperative to make sense of the experiences to date and determine whether there is a “magic key” (Rothstein, 2011) and whether I was being pointlessly unreasonable. In doing so I hoped to be able to identify conclusions helpful personally, academically and in practice. The purpose of this thesis is however not to investigate the impact caused by following either the “right” or the “wrong” direction at any particular cross roads. This thesis is designed as an attempt to find out how culture, those practices, norms and beliefs commonly held by any particular ethnic group of homo sapiens, the ideas, customs, and social behaviour of a particular people or society (OED), and the “cognitive premises for individuals within a group” (Gao & Handley-Schachler (2003) have been researched in relation to corruption and financial accounting. The original objective to cover four countries in Asia that make up nearly half the world’s population was unattainable due to the limitations inherent in a Master thesis. I accordingly settled for Indonesia and China, which proved to be a limited hunting ground for matters cultural, corrupt and accounting.

It is a fact that corruption, bribery and fraud are rising worldwide, based on daily reports from institutions, professional associations, media articles and academic research. This increase is in spite of the past decade of demonstrated wide ranging efforts by a growing number of institutions and agencies globally, from the time towards the end of the last millennium, when corruption started to be recognized for the major “scourge” it is (Everett *et al*, 2007). For this and personal reasons I have undertaken this research to make sense of an apparent paradox and because thesis writing is cathartic. While more legal, governmental, financial, academic and other resources, including those from the accounting community, are being devoted to combatting and reducing corruption, it appears counterintuitive that there should be such a substantial increase. Part of this may be explained by a greater understanding of corruption and increased media and public focus, resulting in more transparency and reporting of corruption, bribery and fraud cases. It may also be that, despite the public rhetoric, underneath there is a belief that culture really is a driver of corrupt practices, as the judge adjudicating on the recent court case of Bereszovsky vs Abramovitch appears to have done in London (Bloomberg, 2012.)

Such explanations concord with my own experience as an auditor and investigator. As a professional accountant I have worked globally and serendipitously in 24 countries and for a wide range of organizations, both in the public and private sector. As a result I have been witness to corruption in all the shapes and forms defined in this thesis, ranging from arms trafficking in Eastern Europe, the Iraq oil for food scandal in Africa, the subversion and subsiding of national democracies in the Indian Ocean, debilitating environmental degradations and destructions, Ponzi and pyramid ploys in the Baltic States, headline fraud and corruption cases in Asia, substantial and explicit procurement fraud programs in Indonesia and Eastern Europe, to the “mundane”, as varied as lower level cases of petty corruption involving twenty dollars to get the phone line re connected or running the gauntlet of travel between office and home interspersed by no less than an average of three inspections of my car by local police bent on augmenting their poor monthly government remuneration. I have been the main instigator and investigator in six legal cases and challenges, involving investigations of corruption and fraud incidents in the billions of dollars, and seeing

settlements and penalties often in the millions, as well as the destruction of lifetime high and low-life careers.

A material part of the corruption and fraud cases involved professional accountants and auditors, regardless of their commitment to their professional ethics, including the requirement to act with integrity (NZICA COE, 2003, Para 16 - 30). A large segment of my global professional career has been spent in Asia, both South East Asia and North Asia, where I had the opportunity to observe corruption, fraud and bribery in situ, as it happened, and to talk, challenge and discuss the issues and outcomes with the various actors and observers in the act including a large proportion of those who rationalized corruption and fraud as a means to a financial end. A dominant thread throughout these practical experiences has been the often heard rationalization that “this is just the culture here” analogous to the well-known adage that “When in Rome, do as the Romans”. Those who claimed this are what I would call “Chameleons” in a similar context as Blasco, Feldt and Jakobsen have used the term (2012). In their discussions on the concept of cultural intelligence they note that a “Chameleon” is a culturally intelligent person (Earley and Peterson, 2004, as quoted in Blasco, Feldt and Jakobsen, 2012, p. 230). Cultural intelligence, abbreviated as CQ, is defined as “the ability to behave appropriately in cross-cultural settings”. This raises interesting questions including what happens if the Chameleon proves to be skin deep only as may occur where a practice in a different cultural settings goes against the core values of a person, such as may be the case when served stewed dog meat in Hanoi by the host of the special event that one attends in those situations. Those pretty colours that are adapted in the guise of overt and daily practices such as eating with a pair of chopsticks may not in the end touch the core values of the person. Corruption may well be such a space where practices and values collide making the life of a “Chameleon” morally challenging and possibly hazardous at times.

The principle that the end justifies the means is, in individualist ethics, regarded as the denial of all morals.” (Hayek.1944, The Road to Serfdom)

As Hayek notes, once we rationalize that the end justifies the means, every act can equally be satisfactorily rationalized individually. In the case of corruption, the practical

justification appears to be predominantly around culture, a dominant topic of this thesis. Based on my research and practical experiences in the field of fraud and corruption investigations and mitigation, the process of ethically rationalizing personal corruption, bribery and fraud is a challenging undertaking that takes time and experience to refine. Since rationalization tries to fit arguments to a desired endpoint, in as much as it involves devising self-satisfying but morally incorrect reasons for one's behaviour, the means employed will have personal and societal implications discussed in the thesis, especially in relation to the financial quantum of damages involved. One need only read the play "A man for all seasons" (Bolt, 1954) with a critical eye to observe the enormous mental stress and the ultimate penalty that was paid by Sir Thomas More and those around him personally, as a result of his strict adherence to personal ethics and conscience.

The alternative is the wholesale engagement in corrupt and immoral acts, on Macchiavellian principles. Under this scenario there is no need to hold back since one cannot be half pregnant anyway. The completion of this thesis coincided with a relevant landmark legal case in the United States of America, which was decided in August 2012. In this case, a remarkable example of gamekeeper turned poacher, a former Vice Chairman of a Big 4 professional services firm was found guilty of insider trading on a wholesale basis (SEC v. Thomas P. Flanagan, et al.: 10-cv-04885 (N.D. Ill., 2012)). In fact, not satisfied with insider trading in only one of his client's equity, he decided to trade in all of them on the basis of confidential information gained from external attestations performed by him. I mention this particular case, since the defendant is well known to me and was the instigator of my eventful journey towards post graduate education. The coincidental fact that he will now have time to reflect in jail in parallel with my academic reflections should not go unnoticed. At the same time, in line with the Eastern philosophies that make increasing sense to me, one cannot even judge actions as right or wrong at any particular moment. All actions simply are, and necessarily so for the journey towards enlightenment is sometimes long and challenging and requires the type of moral challenges to confirm progress on that path.

My professional career is dotted with such moral challenges in the form of contentious discussions, debates and arguments arising from professional reports that were considered too correct, too sensitive and unacceptable since they would lead to unpalatable economic and personal changes, at least as far as the recipients of the reports were concerned. I apparently harboured a Marxist desire for change, and suggesting the responsibilities of my taskmasters were beyond their immediate concerns related to bottom lines and personal bank accounts in exotic locales, has generally not been well received. Had I read Adam Smith at the time of those altercations I would have warned against a world without sympathy much earlier and more vocally. Capitalism without sympathy is indeed Mercantilism, and a good capitalist is in fact a Marxist, at least according to Smith (1790), who devoted several chapters and sections to sympathy and its relationship to capitalism.

An acculturated life

"Read 10,000 books, travel 10,000 miles."(Confucius)

As I had the opportunity, I ended up doing both. My personal experience in acculturation is necessarily wide and covers a range of cultural settings. My first acculturation experience happened in 1981 when I immigrated to New Zealand with my parents. That first "acculturation project" was a ground breaking experience for me that demanded I critically look at my own cultural norms and beliefs and adjust them to those of New Zealand as part of my own survival and success.

Successive intercultural experiences from the age of 21 years old when I first arrived in Malaysia and spent time in a kampung (village) in northern peninsular Malaysia finetuned my acculturation approach. As mentioned, this involved the learning of the local language (s) initially, but to this I rapidly added the reading of history, review of social commentaries, digestion of economic journals, analysis of local media, and extensive dialogues in those cultural settings as part of making sense through informal comparative exercises.

Before proceeding to describe the initial and more detailed results as well as country specific discussions, I believe it is useful to round out the description of the journey so far, to frame the heuristic approach inherent in my approach. As background to my

choice of methodology, my country and cultural experience commenced thirty one years ago in 1981 upon moving to New Zealand. I completed my secondary, tertiary and professional training while working in finance, accounting and audit positions. From 1994 I commenced working for periods of between 2 weeks – 3 years in 26 countries globally, including New Zealand. In many cases I revisited the same countries after a hiatus of up to 10 years to complete further professional projects. In quite a few cases I also regularly commuted between the countries listed, on a weekly or monthly basis, so that an overlapping pattern was established whereby I based myself in one culture and was thus exposed to numerous others working from our new base. This accounts for the apparent impossibility of visiting and working in 26 countries in the elapsed time, since oftentimes I was straddling regions from a homebase, as was the case in Eastern Europe, the Baltic States, Africa and South East Asia. I have continued to do the same until today, and based myself partly in China and partly in New Zealand during a substantial part of the academic research and writing. The list of countries does not include the numerous other countries and regions I visited as part of holidays or for relaxation.

Last but not least, I learnt all relevant languages in those countries where I worked, either by way of formal lessons from native teachers, by self study, and latterly by on the job absorption. This assisted greatly in laying the necessary foundations and local networks for a successful acculturation through understanding. I have accordingly used some excerpts and references from the great books of the countries researched to emphasize matters or support my research.

APPENDIX II - ORIGINAL SEARCH RESULTS

China (In publication date order)

<u>Authors</u>	<u>Date</u>	<u>Title</u>	<u>Publication</u>	<u>Comment</u>
Chow, L.M., Chau, G. K., and Gray, S. J.	1995	Accounting Reforms in China: Cultural Constraints on Implementation and Development.	Accounting and Business Research	Included in Thesis Bibliography
Tsui, J. S. L.	1996	Auditors' ethical reasoning: Some audit conflict and cross cultural evidence	International Journal of Accounting	Article focus on ethical reasoning. No specific coverage of corruption, fraud and bribery. Audit judgments covered in other articles such as Au & Wong, and literature listing needed to be limited to no more than 20 articles.
Xin, Katherine R; Pearce, Jone L,	1996	Guanxi: Connections as substitutes for formal institutional support	Academy of Management Journal	Included in Thesis Bibliography. Specific coverage of Guanxi
Graham, L. E., and Li, C.	1997	Cultural and Economic Influences on Current Accounting Standards in the People's Republic of China.	International Journal of Accounting	Article focus on accounting standards and historical influencers. No specific coverage of corruption, fraud and bribery. Introduction of accounting standards covered in other articles such as Ezzamel & Xiao and Chow, Chau & Gray, and literature listing needed to be limited to no more than 20 articles.

Thornton, Patricia Marie	1997	Disciplining the state: Political corruption, state-making and local resistance in modern China	Book (Social sciences)	Article focus on political behaviour, ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Lu, Xiaobo	1999	From rank-seeking to rent-seeking: Changing administrative ethos and corruption in reform China	Crime, Law and Social Change	Article focus on political behaviour, ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Steidlmeier, P.	1999	Gift Giving, Bribery and Corruption: Ethical Management of Business Relationships in China	JBE	Included in Thesis Bibliography
Tsui, J.	2001	The Impact of Culture on the Relationship Between Budgetary Participation, Management Accounting Systems and Managerial Performance:	International Journal of Accounting	Included in Thesis Bibliography

		An Analysis of Chinese and Western Managers		
Au, A.K.M. and Wong, D.S.N.	2002	The impact of guanxi on the ethical decision-making process of auditors – an exploratory study on Chinese CPAs in Hong Kong.	JBE	Included in Thesis Bibliography
Chen, S., Sun, Z., and Wang, Y.	2002	Evidence from China on Whether Harmonized Accounting Standards Harmonize Accounting Practices.	Accounting Horizons	Included in Thesis Bibliography
Cheng, Wenhua Ph.D.	2002	Institutional roots of China's political corruption in the reform era: An empirical study	Book (Social Sciences)	Article focus on political behaviour, ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Tam, On Kit	2002	Ethical issues in the evolution of corporate governance in China	JBE	Included in Thesis Bibliography
Chan, K.H., Lin, K. Z., and Mo, P. L. L.	2003	An Empirical Study on the Impact of Culture on	Auditing, A Journal of Practice & Theory	Included in Thesis Bibliography

		Audit-Detected Accounting Errors.		
Gao, S., and Handley-Schachler, M.	2003	The influences of Confucianism, Feng Shui and Buddhism in Chinese accounting history.	Accounting, Business and Financial History	Included in Thesis Bibliography
Gong, Ting.	2003	More than mere words, less than hard law: a rhetorical analysis of China's anti-corruption policy.	Public Administration Quarterly	Article focus on political behaviour, ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Gul, F. A., Ng, A. Y., and Tong, M. Y. J. W.	2003	Chinese Auditors' Ethical Behavior in an Audit Conflict Situation.	JBE	Included in Thesis Bibliography
Harris, Robert,	2003	Political corruption: in and beyond the nation state	Book (Social sciences)	Article focus on political behaviour, ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.

Wright, P. C., Szeto, W. F., and Lee, S. K.	2003	Ethical perceptions in China: the reality of business ethics in an international context.	Management Decision	Article focus on business ethics in China. No specific coverage of corruption, fraud and bribery. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Manion, Melanie	2004	Corruption by Design: Building Clean Government in Mainland China and Hong Kong	Book (Social sciences)	Article focus on political corruption ethics and historical influencers. Some specific coverage of corruption and bribery, but no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus
Woodbine, Gordon Francis	2004	Moral Choice and the Declining Influence of Traditional Value Orientations Within the Financial Sector of a Rapidly Developing Region of the People's Republic of China	JBE	Included in Thesis Bibliography
Chan, Jenny C.Y.	2005	Language, Culture and Reform in Hong Kong.	Book (Social sciences)	Very specific to Hong Kong, limited coverage of other variables in research question, not accounting driven. Therefore not included in final literature listing.

Firth, M., Mo, P. L. L., and Wong, R. M. K.	2005	Financial Statement Frauds and Auditor Sanctions: An Analysis of Enforcement Actions in China.	JBE	Article focus on regulatory responses to audit failure. No specific coverage of corruption and bribery, and no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Hwang, D.B.K., and Staley, A. B.	2005	An Analysis of Recent Accounting and Auditing Failures in the United States on U.S. Accounting and Auditing in China.	Managerial Auditing Journal	Included in Thesis Bibliography
Li, Ji, Lam, Kevin; Moy, Jane W,	2005	Ownership reform among state firms in China and its implications,	Management Decision	Article focus on regulatory responses to audit failure. No specific coverage of corruption and bribery, and no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Chow, C.W., Ho, J.L., and Mo, P. L. L.	2006	Toward Understanding Chinese Auditors' Structuring of Audit Approaches, Client Acceptance Decisions, Risk	Journal of International Accounting Research	Included in Thesis Bibliography

		Assessment, and Stringency of Imposed Reporting Standards.		
Gilley, Bruce,	2006	Elite-led democratization in China: Prospects, perils, and policy implications	International Journal	Article focus on Chinese political frameworks and possible future directions. No specific coverage of corruption and bribery, and no linkage to accounting and not accounting literature. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Chen, J.J., Cheng, P.	2007	Corporate Governance and the Harmonization of Chinese Accounting Practices with IFRS Practices.	Corporate Governance	Article focus on accounting standards and historical influencers. No specific coverage of corruption, fraud and bribery. Introduction of accounting standards covered in other articles such as Ezzamel & Xiao and Chow, Chau & Gray, and literature listing needed to be limited to no more than 20 articles.
Ezzamel, M., Xiao, J. Z., and Pan, A.	2007	Political Ideology and Accounting Regulation in China.	OAS	Included in Thesis Bibliography
Zheng, Xiaolan	2007	Collectivism and Corruption in Bank Lending.	Journal of Banking and Finance ?	Article focus on the financial services sector. No specific coverage of culture, some on specific bank related corruption, fraud and bribery. Literature listing needed to be limited to no more than

				20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Hwang, D., Staley, B., Chen, Y. T., and Lan, J.	2008	Confucian culture and whistle-blowing by professional accountants: an exploratory study.	Managerial Auditing Journal	Included in Thesis Bibliography
Lin, K. Z., and Fraser, I. A. M.	2008	Auditors' Ability to Resist Client Pressure and Culture: Perceptions in China and the United Kingdom	Journal of International Financial Management and Accounting,	Included in Thesis Bibliography
Brody, R. G., and Luo, R.	2009	Fraud and white-collar crime: a Chinese perspective.	Cross Cultural Management: An International Journal.	Included in Thesis Bibliography
Chan, Allan K; Kip, Po-keung; Lam, Kit-chun Joanna	2009	Business Ethics in Greater China: An Introduction	JBE, Journal of Business Ethics, suppl	Included in Thesis Bibliography
Chen, Y., & Chan, K. C.	2009	Research on Chinese Accounting Issues.	The Chinese Economy	Included in Thesis Bibliography
Jia, C et al	2009	Fraud, Enforcement Action, and the Role of Corporate Governance: Evidence from China	JBE	Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.

Tan, Justin	2009	Institutional Structure and Firm Social Performance in Transitional Economies: Evidence of Multinational Corporations in China	JBE	Article focus on MNC and CSR in emerging markets. Some coverage of culture, some on specific unethical acts including corruption, fraud and bribery. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Fleming, D. M., Chow, C. W., and Su, W.	2010	An Exploratory Study of Chinese Accounting Students' and Auditors' Audit-specific Ethical Reasoning.	JBE	Article focus on ethics in China between two groups of accounting students and professionals, respectively, using a US control group. No specific coverage of corruption, fraud and bribery. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Hua, Lan Wan; Georgakopoulos, Georgios; Sotiropoulos, Ioannis; Galanou, Ekaterini	2010	Main Principles and Practices of Auditing Independence in China: A Multifaceted Discussion	Asian Social Science	Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Chu, A.G.H et al.	2011	Buy, Lie, or Die: An Investigation of Chinese ST Firms' Voluntary Interim Audit Motive and Auditor Independence.	JBE	Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.

Li, Sherry F; Persons, Obeua S	2011	Cultural Effects on Business Students' Ethical Decisions: A Chinese Versus American Comparison	Journal of Education for Business	Article focus on ethics in China between two groups of accounting students and professionals, respectively, using a US control group. No specific coverage of corruption, fraud and bribery. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Chand, P., Cummings, L., and Patel, C.	2012	The Effect of Accounting Education and National Culture on Accounting Judgments: A Comparative Study of Anglo- Celtic and Chinese Culture.	European Accounting Review	Included in Thesis Bibliography

Indonesia (In publication date order)

<u>Authors</u>	<u>Date</u>	<u>Title</u>	<u>Publication</u>	<u>Comment</u>
Sudarwan, S.	1995	The dynamic relationship between culture and accounting: An empirical examination of the Indonesian setting. Thesis - PhD.	Thesis for MCA	Included in Thesis Bibliography
Sudarwan, M., and Fogarty, T. J.	1996	Culture and Accounting in Indonesia: An Empirical Examination	The International Journal of Accounting	Included in Thesis Bibliography
Sudarwan, M., and Fogarty, T. J.	1997	The Relationship between Culture and Accounting Regulation: Questioning Conventional Analysis with the Case Study of Indonesia	Research in Accounting Regulation. Supplement	Included in Thesis Bibliography
Saudagaran, S. M., and Diga, J. G.	1998	Accounting harmonization in ASEAN: Benefits, models, and policy issues	Journal of International Accounting, Auditing, and Taxation.	Included in Thesis Bibliography
Gersten, Alan	1999	Eastern exposure	Journal of Accountancy	Included in Thesis Bibliography

Robertson-Snape, F.	1999	Corruption, collusion and nepotism in Indonesia	Third World Quarterly	Article focus on corruption in Indonesia from a political/social perspective, including the regime change and its impact. No specific coverage of linkages to culture or financial reporting. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Rosser, A.	1999	The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia	Working Paper (Accounting)	Included in Thesis Bibliography
Capulong, V., Edwards, D., Webb, D., and Zhuang, J.,	2000	Corporate governance and finance in East Asia. A Study of Indonesia, Republic of Korea, Malaysia, Phillippines and Thailand	ADB Report	Could not find link
Efferin, S.	2002	Management control system, culture, and ethnicity: a case of Chinese Indonesian	Could not be located	Could not find link
Askary, S.	2006	Accounting Professionalism – a cultural perspective of developing countries	Managerial Auditing Journal	Included in Thesis Bibliography

Chariri, A.	2006	The dynamics of financial reporting practice in an Indonesian insurance company: a reflection of Javanese views of an ethical social relationship. Thesis - PhD.	Thesis for PhD in Accounting	Included in Thesis Bibliography
Djamhuri, A., and Mahmudi	2006	New public management, accounting reform, and institutional perspective of public sector accounting in Indonesia	Jurnal Bisnis Dan Akuntansi	Included in Thesis Bibliography
Leuz, C., and Oberholzer-Gee, F.	2006	Political relationships, global financing, and corporate transparency: Evidence from Indonesia	Journal of Financial Economics	Included in Thesis Bibliography
Marwata, and Alam, M.	2006	The interaction amongst reform drivers in governmental accounting changes: The case of Indonesian local government	Journal of Accounting & Organizational Change	Included in Thesis Bibliography
Agoes, S., and Kristaung, R.	2007	The influence of professional and business ethics and corporate social responsibility on corporate governance implementation and fraud mitigation: empirical evidence from accounting	The Asian Forum on Business Education	Article focus on ethics in Indonesia from a business perspective, including on corporate governance and its impact. No specific coverage of linkages to culture or financial reporting. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on

		managers and public accountants in Jakarta		accounting journals due to thesis topic and focus.
Dercon, Bruno,	2007	Corporate governance after the Asian crisis: Querying the Indonesian environment,	International Journal of Law and Management	Article focus on Corporate Governance in Indonesia from a business perspective, with a focus to develop a taxonomy post regime change. No specific coverage of linkages to culture or financial reporting. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.
Efferin, S., and Hopper, T.	2007	Management control, culture and ethnicity in a Chinese Indonesian company.	OAS	Included in Thesis Bibliography
Shen, C.-H., and Chih, H.-L.	2007	Earnings Management and Corporate Governance in Asia's Emerging Markets	Corporate Governance: An International Review	Included in Thesis Bibliography
Welford, R.	2007	Corporate governance and corporate social responsibility: issues for Asia	Corporate Social Responsibility and Environmental Management	Article focus on CSR in Indonesia from a Corporate Governance perspective, with a focus to analyze the connectivity from an Asian perspective. Limited linkages to corruption, fraud, culture or financial reporting. Literature listing needed to be limited to no more than 20 articles, with initial emphasis on accounting journals due to thesis topic and focus.

Bosworth-Davies, Rowan	2008	The influence of Christian moral ideology in the development of anti-money laundering compliance in the west and its impact, post 9-11, upon the South Asian Market: An independent evaluation of a modern phenomenon	Journal of Money Laundering Control	Included in Thesis Bibliography
McGee, R. W.	2008	Corporate Governance in Asia: A Comparative Study of Indonesia, Malaysia, Thailand and Vietnam - working paper	Working Paper (Accounting)	Included in Thesis Bibliography
Almilia, L. S.	2009	Determining Factors of Internet Financial Reporting in Indonesia	Accounting & taxation	Article focus on internet reporting in Indonesia, based on a quantitative study. Limited linkages to corruption, fraud, culture. Literature listing needed to be limited to no more than 20 articles.
Chariri, A.	2009	Studying Financial Reporting Practice Within Cultural Perspective: A Note For Doing Research In the Indonesian Environment		Included in Thesis Bibliography
Dima Cristea, S. M., David, D., and Paiusan, L.	2010	Specific features of Islamic accounting and cultural paradigm. Thesis - PhD	Unknown if this was published. Cannot find any reference to it being	Included in Thesis Bibliography

			published on line, including www.uni- muenchen.de	
Blunt, Peter, Turner, Mark and Lindroth, Henrik	2012	Patronage's progress in Post Soeharto Indonesia	Book (Social sciences)	Article focus on Indonesia too limited in addressing one aspect of corruption, patronage. Limited linkages to corruption, fraud, culture and financial reporting. Literature listing needed to be limited to no more than 20 articles.
Schütte, S. A.	2012	Against the odds: Anti-corruption reform in Indonesia	Book (Social sciences)	Included in Thesis Bibliography